

By Mr. LANE:

H. R. 7660. A bill to amend the Social Security Act, as amended, to restrict the residence requirements that a State may impose as a condition of eligibility for old-age assistance under a State plan for old-age assistance; to the Committee on Ways and Means.

By Mr. RANKIN of Mississippi:

H. R. 7661. A bill to amend title I of Public Law No. 2, Seventy-third Congress, March 20, 1933, and the veterans regulations to provide for rehabilitation of disabled veterans, and for other purposes; to the Committee on World War Veterans' Legislation.

H. R. 7662. A bill to provide for vocational rehabilitation and the return to civil employment of certain persons disabled under circumstances entitling them after discharge or separation from the military or naval forces of the United States to a pension or retirement pay; to the Committee on World War Veterans' Legislation.

By Mr. JOHNSON of Oklahoma:

H. R. 7663. A bill to provide for the common defense in relation to the sale of alcoholic liquors to the members of the land and naval forces of the United States and to provide for the suppression of vice in the vicinity of military camps and naval establishments; to the Committee on Military Affairs.

By Mr. LANE:

H. R. 7664. A bill to confer the same rights, privileges, and benefits upon members of the merchant marine who serve after September 26, 1941, and during the present war as are conferred upon members of the armed forces of the United States who serve during the present war; to the Committee on the Merchant Marine and Fisheries.

#### PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII, private bills and resolutions were introduced and severally referred as follows:

By Mr. STEVENSON:

H. R. 7665. A bill granting a pension to Amanda M. Evert; to the Committee on Invalid Pensions.

By Mr. LELAND M. FORD:

H. R. 7666. A bill for the relief of Cecil Ray Murphy; to the Committee on Naval Affairs.

#### PETITIONS, ETC.

Under clause 1 of rule XXII, petitions and papers were laid on the Clerk's desk and referred as follows:

3360. By Mr. KRAMER: Petition of the League of California Cities, voicing opposition to the taxation by the Federal Government of the income derived from State and local securities either as to outstanding or future issues; to the Committee on Ways and Means.

3361. By Mr. SPRINGER: Petition of 130 citizens, representing more than 60 counties in the State of Indiana, urging the support of all Indiana Members in Congress for House bill 7432 or Senate bill 2690, for the purpose of establishing a Pharmacy Corps in the Army of the United States; to the Committee on Military Affairs.

## SENATE

WEDNESDAY, OCTOBER 7, 1942

(Legislative day of Monday, October 5, 1942)

The Senate met at 11 o'clock a. m., on the expiration of the recess.

Rev. Harry L. Bell, minister, Columbia Heights Christian Church, Washington, D. C., offered the following prayer:

Thy Word, O God, is a lamp unto our feet and light upon our pathway. Today we are conscious of the need of that light. We are gathered in this bright room, the sun is high in the heavens, yet how dark is our world! All the good things for which we have prayed and worked, in which we have steadfastly believed, seem to be lost in darkness. We are groping our way. As the little child in the midnight darkness finds reassurance and strength, reaching out and touching the hand of father or mother, may we be strengthened as through the dark we reach and find Thy hand.

Let not the light of our faith be extinguished! Keep it burning brightly in our hearts, our homes, our Nation, the world. Though the moral world of righteousness, love, and brotherhood seems to be blacked out, keep the pilot light of Thy truth and good will burning in our hearts. And when the night is done, when the carnage is over and morning dawns, establish Thy rule in every land.

Bless, Thou, the deliberations of this body this day and not only this day but through every day, that Thy will may be done in our hearts as it is in heaven above. In His name we pray. Amen.

#### THE JOURNAL

On request of Mr. BARKLEY, and by unanimous consent, the reading of the Journal of the proceedings of the calendar day Tuesday October 6, 1942, was dispensed with, and the Journal was approved.

#### TRANSPORTATION OF DEPENDENTS AND HOUSEHOLD EFFECTS OF CERTAIN PERSONNEL

The VICE PRESIDENT laid before the Senate the amendments of the House of Representatives to the bill (S. 2679) to authorize the transportation of dependents and household effects of personnel of the Navy, Marine Corps, Coast Guard, and Coast and Geodetic Survey, incident to secret or confidential orders, and for other purposes, which were, to strike out all after the enacting clause over to and including "expense," in line 20, page 2, and insert "That officers and enlisted men of the Navy, Marine Corps, and Coast Guard, and the reserve components thereof when on active duty, of grades entitling them to transportation of dependents and household effects on change of stations, ordered to or from duty under secret or confidential orders or orders from which the names or locations of the ships or stations involved are omitted for reasons of security shall, upon application of such personnel or their dependents, be entitled to transportation for their dependents and household effects, including packing, crating, and unpacking thereof, from their stations or places of storage in the United States to any other points in the United States, and from such points to new stations in the United States to which such personnel may be subsequently ordered for duty, under such regulations as the Secretary of the Navy may prescribe: *Provided*, That the wives of such personnel, or such other responsible persons as may be designated by the officials named in the next following proviso, may execute such certificates as may be required and which are filed with, and relate to, vouchers in

connection with the transportation of dependents or household effects: *Provided further*, That in lieu of copies of orders to or from duty under secret or confidential orders or orders from which the names or locations of the ships or stations involved are omitted for reasons of security, a certification of the Chief of Naval Personnel, Commandant of the Marine Corps, Commandant of the Coast Guard, or such subordinates as they may designate, that the personnel concerned have been so ordered shall constitute authority for the payment of mileage and for the transportation of dependents and household effects authorized herein, and any certificate or certification authorized by this act shall be final and conclusive upon the accounting officers of the Government: *And provided further*, That under such regulations as the Secretary of the Navy may prescribe, claims for reimbursement may be submitted by and payments made to personnel concerned or their dependents for any authorized travel performed by dependents at their own expense."

And on page 2, lines 21 and 22, to strike out "December 8, 1941" and insert "October 1, 1940."

Mr. WALSH. I move that the Senate concur in the amendments of the House. The motion was agreed to.

#### NATIONAL SERVICE LIFE INSURANCE FOR CERTAIN AVIATION CADETS AND STUDENTS

The VICE PRESIDENT laid before the Senate the amendments of the House of Representatives to the bill (S. 2275) to amend section 10 of Public, No. 360, Seventy-seventh Congress, to grant national service life insurance in the cases of certain Army flying cadets and aviation students who died as the result of aviation accident in line of duty between October 8, 1940, and June 3, 1941, which were, on page 2, line 1, to strike out "Air Corps", and insert "Navy or."

Amend the title so as to read: "An act to amend section 10 of Public, No. 360, Seventy-seventh Congress, to grant national service life insurance in the cases of certain Navy or Army flying cadets and aviation students who died as the result of aviation accident in line of duty between October 8, 1940, and June 3, 1941."

Mr. CLARK of Missouri. I move that the Senate concur in the amendments of the House.

The motion was agreed to.

#### CALL OF THE ROLL

Mr. HILL. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Butler	George
Bailey	Byrd	Gerry
Ball	Capper	Gillette
Bankhead	Caraway	Green
Barbour	Chandler	Guffey
Barkley	Chavez	Gurney
Bilbo	Clark, Idaho	Hatch
Bone	Clark, Mo.	Hayden
Brewster	Connally	Herring
Brooks	Danaher	Hill
Brown	Davis	Holman
Bulow	Downey	Johnson, Calif.
Bunker	Doxey	Johnson, Colo.
Burton	Ellender	Kilgore

La Follette  
Langer  
Lee  
Lodge  
Lucas  
McCarran  
McFarland  
McKellar  
McNary  
Maloney  
Maybank  
Millikin  
Murdock  
Murray  
Norris  
Nye

O'Daniel  
O'Mahoney  
Overton  
Pepper  
Radcliffe  
Reed  
Reynolds  
Rosier  
Schwartz  
Shipstead  
Smathers  
Smith  
Spencer  
Stewart  
Taft  
Thomas, Idaho

Thomas, Okla.  
Thomas, Utah  
Truman  
Tunnell  
Tydings  
Vandenberg  
Van Nuys  
Wagner  
Wallgren  
Walsh  
Wheeler  
White  
Wiley  
Willis

Mr. HILL. I announce that the Senator from Virginia [Mr. GLASS] and the Senator from Delaware [Mr. HUGHES] are absent from the Senate because of illness.

The Senator from Florida [Mr. ANDREWS], the Senator from New York [Mr. MEAD], and the Senator from Georgia [Mr. RUSSELL] are necessarily absent.

Mr. McNARY. The following Senators are necessarily absent:

The Senator from Vermont [Mr. AUSTIN] and the Senator from New Hampshire [Mr. BRIDGES].

The VICE PRESIDENT. Eighty-eight Senators have answered to their names. A quorum is present.

#### EXECUTIVE COMMUNICATIONS, ETC.

The VICE PRESIDENT laid before the Senate the following letters, which were referred as indicated:

#### PURCHASE OF LOGS, LUMBER, AND OTHER FOREST PRODUCTS

A letter from the Acting Secretary of the Interior, transmitting a draft of proposed legislation to authorize the Secretary of the Interior to purchase logs, lumber, and other forest products (with an accompanying paper); to the Committee on Indian Affairs.

#### DISPOSITION OF EXECUTIVE PAPERS

A letter from the Archivist of the United States, transmitting, pursuant to law, lists of papers and documents on the files of the Departments of War, Navy, Interior (5), and Agriculture (17); administrative office of the United States courts, The National Archives, and Federal Trade Commission which are not needed in the conduct of business and have no permanent value or historical interest, and requesting action looking toward their disposition (with accompanying papers); to a Joint Select Committee on the Disposition of Papers in the Executive Departments.

The VICE PRESIDENT appointed Mr. BARKLEY and Mr. BREWSTER members of the committee on the part of the Senate.

#### REPORT OF THE COMMITTEE ON NAVAL AFFAIRS

Mr. WALSH, from the Committee on Naval Affairs, to which was referred the bill (H. R. 7577) to amend the act approved July 24, 1941 (34 U. S. C., Supp. I, 350f), so as to adjust the pay status of enlisted personnel appointed to commissioned rank for temporary service, and for other purposes, reported it without amendment and submitted a report (No. 1633) thereon.

#### RECOMMITTAL AND REPORT OF A BILL— DEFINITION OF REAL PROPERTY EXEMPT FROM TAXATION IN THE DISTRICT

On motion by Mr. McCARRAN, the bill (S. 2804) to define the real property exempt from taxation in the District of Columbia, was recommitted to the Com-

mittee on the District of Columbia; and, subsequently, Mr. McCARRAN, from the Committee on the District of Columbia, to which the foregoing bill was recommended, reported it with additional amendments and submitted a report (No. 1634) thereon.

#### BILLS AND A JOINT RESOLUTION INTRODUCED

Bills and a joint resolution were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. GREEN:

S. 2831. A bill permitting the naturalization of certain persons not citizens whose husbands, sons, or daughters have served with the land or naval forces of the United States; to the Committee on Immigration.

By Mr. CLARK of Missouri:

S. 2832. A bill to amend Veterans Regulation No. 10, as amended;

S. 2833. A bill to amend Veterans Regulation No. 10, as amended, and for other purposes; and

S. 2834. A bill to define misconduct, for compensation and pension purposes, as limited to felonious misconduct; to the Committee on Finance.

By Mr. BAILEY:

S. 2835. A bill authorizing the temporary appointment or advancement of commissioned officers of the Coast and Geodetic Survey in time of war or national emergency, and for other purposes; to the Committee on Commerce.

(Mr. JOHNSON of Colorado introduced Senate bill 2836, which was referred to the Committee on Military Affairs, and appears under a separate heading.)

(Mr. THOMAS of Utah introduced S. J. Res. 165, which was referred to the Committee on the Library, and appears under a separate heading.)

#### CONTINUATION OF PAY OF PERSONS IN THE ARMED FORCES FOR 6 MONTHS AFTER TERMINATION OF THE WAR

Mr. JOHNSON of Colorado. Mr. President, I have the honor to ask consent to introduce for appropriate reference a bill to continue the pay of persons serving in the armed forces of the United States for 6 months after the termination of the present conflict. I am glad to say that the three great service organizations—the D. A. V., the V. F. W., and the American Legion—are in complete agreement on this measure.

There being no objection, the bill (S. 2836) to continue the pay of all persons serving in the armed forces of the United States for 6 months after the termination of the present conflict was read twice by its title and referred to the Committee on Military Affairs.

#### MONUMENT TO SUN YAT-SEN, FIRST PROVISIONAL PRESIDENT OF THE CHINESE REPUBLIC

Mr. THOMAS of Utah. Mr. President, I ask unanimous consent to introduce a joint resolution for appropriate reference, and also that an accompanying statement be printed in the RECORD in connection with the resolution.

The VICE PRESIDENT. Is there objection to the request of the Senator from Utah? The Chair hears none, and it is so ordered.

The joint resolution (S. J. Res. 165) to authorize the erection of a monument to Sun Yat-sen was read twice by its title

and referred to the Committee on the Library.

The statement presented by Mr. THOMAS of Utah is as follows:

October 10 is a day important in China; and because China is important in the life and plans of every American, the day is important for us in the United States also.

Just as we look back to July 4, 1776, as the symbolic beginning of the United States of America, so China looks back to October 10, 1911, as the symbolic beginning of the Chinese Republic.

And as we look back to George Washington as the father of our country, so today, 450,000,000 Chinese people look back on Sun Yat-sen as the father of their nation.

Because of the spiritual kinship of Sun Yat-sen and his philosophy of democracy with our own democratic ideals, and because of the similarity of the struggle of China to achieve a republic with our own struggle nearly two centuries ago, it is my belief that Sun Yat-sen should become increasingly known in American life, a figure whose inspiration, wisdom, courage, and achievements should serve as an example and stimulus to every American, young and old.

As a token of the esteem in which he is held, I believe it fitting and valuable that here in the Nation's Capital we should have, in some public place, an enduring mark of that esteem. I have therefore introduced today a resolution providing for the erection of a statue of Sun Yat-sen, to stand with the statues of other great leaders and to be a living reminder of the contribution of Dr. Sun to democracy.

I appreciate that during the fighting of the war there may be a justifiable delay in the actual erection of this statue in order that every immediate physical effort in our Nation be dedicated to creating the materials to winning the war for China as well as for ourselves. But I believe that this anniversary of the birth of the Chinese Republic, which finds us for the first time linked in active partnership with our sister republic is an appropriate occasion for the Congress of the United States to determine upon this tribute, so that at some early future day the provision now on paper may become a reality in marble.

To many of us in the United States there is something a little strange about the customs and the living habits, as well as the problems of China. But these are not nearly as strange as are the customs, living habits, and problems of the people of the United States at the time in its history comparable to this time in Chinese history. Were we to be transported to the United States in the year 1807, we would feel very strange indeed in rubbing shoulders with the Americans of that time. Yet in 1807 the United States had existed exactly as long as the Chinese Republic has existed today. And once the outer strangeness of mingling with the Americans of 1807 had worn off, we would find the basic sameness in ideals and in democratic goals which Americans find today when they contemplate the ideals and goals of the Chinese people. I had occasion to say in the Senate, on the occasion of the anniversary of the death of Sun Yat-sen last March that "I am not alone in believing in this time of war crisis that our country would have been better off during the last generation if our schools had taught our growing citizens a great deal more than they did about the Eastern Hemisphere. Had our people, for example, been more familiar with the designs of the war lords of Japan, with the pattern of militarism and unswerving loyalty to the ideals of conquest, subjugation, and ruthless despotism, our Nation would undoubtedly have followed our leaders more wholeheartedly in steps to prevent what is now happening in the Pacific."



"Moreover, had our people become more familiar with the magnificent rebirth of China, with its epoch-making turn to political democracy under the leadership of Sun Yat-sen, our national realization of the bonds linking us to China would have led us into far greater support and encouragement than we gave, and into far more active collaboration in helping that great new Republic to repel the barbarous invaders from Tokyo."

I said also upon that occasion: "Sun Yat-sen is bound to remain in history as one of the great who has contributed to the advancement of the welfare of mankind. Sun Yat-sen's formula, the Three Peoples' Principles, constitutes a program to bring forth a united China, a democratic China, and a Chinese government established to promote the welfare of the people of China."

"Persons wonder why it is that China and the United States are such natural allies. Have we not in the Three Peoples' Principles, a restatement of the objectives of our founding fathers when they established our Union?"

"The Thirteen Colonies were brought together to make a strong government. This marked the birth of the American Nation. The republican form of government was guaranteed to all of the States in the Union. That constituted America's guaranty of democracy. And the Constitution provides for the general welfare of the people."

"Thus China and America are natural allies in the attainment of liberty for persons and a government of the people which will act as the peoples' agent. The importance of China's position in the present war to save democracy cannot be overemphasized. Her fight and ours are indeed identical."

But October 10 has a double significance for the Chinese people. Because of the vicissitudes and struggles to establish the Republic in the years following 1911, the revolutionary principles of democracy and the unification of China were not fully accomplished. But in 1928 came what is termed the second revolution, which brought forth the present Government of China under the leadership of Generalissimo Chiang Kai-shek. And October 10 stands as the symbolic date of the establishment of that Government which today is standing firm against Japan, not only for her own salvation but for the salvation of all the United Nations. It is appropriate, therefore, that in celebrating the holiday tomorrow, which is the tenth in China, we pay a tribute to the great Generalissimo and to his accomplishments for his Nation and for ours. A heroic figure, cast in the mold of greatness, he has led his Nation through travails of ruthless invasion, of superior force, of attempts at conquest, and has emerged with a nation unified as never before and grown stronger day by day.

I look forward to the day when the multitudes of Americans who make pilgrimages to the city of Washington will have the experience of standing before the statue of Sun Yat-sen which is provided for in the bill which I have introduced, and standing before that statue, will feel a thrill of excitement and of affection for what that statue symbolizes.

#### AMENDMENTS TO THE REVENUE ACT OF 1942

Mr. BUTLER submitted an amendment, and Mr. McKELLAR and Mr. SMITH each submitted several amendments intended to be proposed by them, respectively, to the bill (H. R. 7378) to provide revenue, and for other purposes, which were severally ordered to lie on the table and to be printed.

Mr. BURTON. Mr. President, I submit an amendment to section 112 of the pending bill (H. R. 7378) to provide revenue, and for other purposes, and ask that it be printed, and lie on the table if we

do not reach this section today, but I shall call up the amendment if we do reach the section affected today.

The VICE PRESIDENT. The amendment submitted by the Senator from Ohio will lie on the table and be printed.

#### ADDRESS BY SENATOR AUSTIN ON THE SENATE'S SHARE IN FORMULATION OF FOREIGN POLICY.

[Mr. AUSTIN asked and obtained leave to have printed in the Record an address on the subject of the Senate's share in formulation of foreign policy, delivered by him at the annual forum of the Foreign Policy Association, Inc., New York, October 3, 1942, which appears in the Appendix.]

#### STATEMENT BY PETROLEUM COORDINATOR ICKES ON THE PROBLEM OF PETROLEUM PRODUCTION

[Mr. O'MAHONEY asked and obtained leave to have printed in the Record a statement on the problem of petroleum production, made by Hon. Harold L. Ickes before the war minerals subcommittee of the Senate Committee on Public Lands and Surveys, on October 7, 1942, which appears in the Appendix.]

#### MANPOWER IN THE WAR—ARTICLE BY SAMUEL GRAFTON

[Mr. WHEELER asked and obtained leave to have printed in the Record an article on the use of manpower in the war written by Samuel Grafton, and published in the Washington Star of Tuesday, October 6, 1942, which appears in the Appendix.]

#### FLIGHT BY LIEUTENANT GENERAL ARNOLD FROM AUSTRALIA TO BOLLING FIELD

Mr. BUNKER. Mr. President, last Friday afternoon at 4:15 o'clock Lt. Gen. Henry H. Arnold, Chief of the Army Air Forces, whose career in military aviation dates back more than 30 years, landed at Bolling Field, D. C., 77 hours and 14 minutes after he left Brisbane, Australia. He and his crew traversed the distance to San Francisco in less time than it had ever before been traveled by man.

The landing here, fittingly, was on the twenty-fifth anniversary of the founding of Bolling Field, one of the oldest Army airfields in America.

General Arnold was awarded the Distinguished Service Medal and members of his crew were presented with the Air Medal, properly and promptly.

The incidents of that day, as recorded by the press and radio, are reassuring. They denote America's efficiency in the air. They bespeak the kind of leadership in which the American people can have confidence.

In General Arnold we find an officer who shares the hazards and risks of war right along with his men—an officer quick to share the glories of accomplishment with his subordinates.

After a 22,000-mile tour of the Pacific theater, General Arnold brought back word that "our fighter planes are doing a splendid job" and that "our bombers are in a class by themselves, with almost no combat losses."

From Col. Lewis R. Parker, Bolling Field commandant and veteran pilot, on the same day, in an anniversary radio speech, came assurances from home:

We are playing our part in the building of a fighting machine that can and will successfully safeguard the heritage of our Nation.

We are training men to prosecute the grim business of war and, at the same time, fit themselves better for the tasks that will come when they return to civilian life.

The Army is training men for the present, and also for the future.

These are the assurances for which the people of America are looking.

#### A SQUARE DEAL FOR THE FARMER

Mr. LEE. Mr. President, those of us who represent the farm States have never asked anything for the farmer which has not likewise been enjoyed by the nonfarm population.

We argued that the first price-control bill specifically exempted wages, and therefore should not apply to farm commodities.

In the debate on the floor of the Senate, I presented the following argument on January 8, 1942:

Mr. LEE. The bill specifically exempts labor. Why is that?

The farmer who works his farm is paid his wages in terms of the commodities he sells. It takes a man-hour of labor to produce 1 pound of lint cotton. If cotton is selling at 17 cents a pound, all that is received by the farmer who produces the cotton is 17 cents an hour. He does not really receive that much net, because he must deduct from the 17 cents the cost of a number of things.

So what I have difficulty in understanding is why we should exempt the industrial worker and his wage pay but bring the agricultural worker under the law. Why not exempt both of them?

Now, Mr. President, we have just passed a second price-control law which covers wages as well as farm prices. It was only after long debate and considerable effort on the part of those of us who represent agricultural States that we succeeded in writing into this law a requirement that the cost of farm labor shall be considered in determining maximum farm prices.

During the debate on this measure on September 22, 1942, I used the following illustration to prove that the cost of farm labor must be considered in determining farm prices if the farmer is to get a square deal:

Let me illustrate the problem in this way. The result to the farmer would not be the same. For example, if the farmer raises a bushel of wheat, and wheat is selling at \$1.25 a bushel, and overalls are \$1.25 a pair, he can trade a bushel of wheat for a pair of overalls. Let us say that is parity. Then let us assume the cost of all labor increases 100 percent. Overalls would then sell at \$2.50 and the price of wheat, due to parity, would rise to \$2.50 a bushel. The farmer would still be able to trade a bushel of wheat for a pair of overalls; but the cost of producing the bushel of wheat when the farmer received \$1.25 for it was 50 cents, whereas now, because of the increased cost of labor, the cost of producing a bushel of wheat is \$1, so he is out 50 cents for the same overalls.

In other words, the farmer would not actually be receiving parity unless consideration were given to the cost of producing the farm commodity, which cost certainly includes farm labor.

Mr. President, the wage-hour law placed a floor under industrial wages. Therefore, it seemed only fair and right that we place a floor under farm prices.

This we have done by providing in the recent price-control law that farmers be

given loans on their commodities up to 90 percent of parity.

In opposing an amendment to strike out this provision on September 30, 1942, I said:

Mr. President, I rise to oppose the Lucas amendment. The effect of this amendment is to nullify the provision of the resolution which guarantees a price floor to farm commodities at 90 percent of parity. This floor is already well below parity. Therefore, why should we lower it still more?

And later in the debate I said:

Mr. President, I shall vote against the pending amendment. The joint resolution as it stands is acceptable to those who will have to administer it, and I will not yield to any further whittling down of the farmer's prices.

In any fair administration of the law, the Executive is bound to take into consideration the congressional intent. While the administration did not want a rigid, inflexible law, yet the congressional intent is very clear on the point that the cost of farm labor shall be considered when determining maximum prices.

Let me quote from section 3 of the law itself:

That modifications shall be made in maximum prices established for any agricultural commodity \* \* \* in any case \* \* \* where by reason of increased labor or other costs to the producers of such agricultural commodity \* \* \* the maximum prices so established will not reflect such increased costs.

Again, in the same section, the law reads as follows:

That in fixing price maximums for agricultural commodities \* \* \* adequate weighting shall be given to farm labor.

Therefore it is evident that it is not only the intent of Congress that farm labor costs shall go into the consideration of maximum prices, but it is actually the law.

Mr. President, it is a rare thing when a bill as controversial as the price-control bill is passed by Congress with such unanimity. There was not even a single dissenting vote in the Senate.

At one time it looked as though Congress and the President were deadlocked. Yet out of that situation there came a law which gives the President the power to control inflation, and at the same time it gives the farmer a square deal.

This indeed is a great victory for the democratic processes during a national crisis.

I ask leave to have printed in the RECORD as a part of my remarks a telegram I have received from Mr. Tom W. Cheek, president of the Oklahoma Farmers' Union, and a letter I have just received from Mr. Ira M. Finley, president of the Oklahoma division of the General Welfare Federation of America.

There being no objection, the telegram and letter were ordered to be printed in the RECORD, as follows:

OKLAHOMA CITY, OKLA.,  
September 24, 1942.

Senator JOSH LEE,  
Senate Office Building,  
Washington, D. C.:

Our organization is supporting the President's seven-point program to prevent infla-

tion by bringing farm prices and labor into a balance at parity.

TOM W. CHEEK,  
President of Oklahoma Farmers' Union.

LABOR'S VOICE,  
Oklahoma City, October 3, 1942.  
Senator JOSH LEE,  
Senate Office Building,  
Washington, D. C.

DEAR SENATOR: I want to extend to you the genuine appreciation of the entire membership of my State organization. You have again demonstrated your progressive and statesmanlike position on a great public question.

It is our opinion that the price-control controversy was one between the food speculators, the Farm Bureau on one side and the working farmers, the American workers, and the vast majority of the public on the other side.

In spite of the seditious sniping of the controlled daily press, the general public was not fooled by the straw man that was set up by the anti-Roosevelt forces in an effort to discredit the President under the guise of protecting the farmer.

It is the first time the United States Chamber of Commerce and their counterpart, the Farm Bureau, has ever lost sleep over the plight of that working farmer, who has heretofore been denied a chance.

Under the new legislation sponsored by the President, supported by the junior Senator of Oklahoma, the working farmer is not only given an even break with the corporation farms but, on account of doing his own work with the hands of his wife, his children, and himself, he now has an advantage.

In other words, you have helped to save thousands of farm homes and build others.

Sincerely your friend,

IRA M. FINLEY,  
President, Oklahoma Division,  
General Welfare Federation of America.

#### MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Calloway, one of its reading clerks, announced that the House had passed without amendment the following bills of the Senate:

S. 97. An act for the relief of the legal guardian of Joy Montgomery, a minor;

S. 103. An act for the relief of Caffey Robertson-Smith, Inc.;

S. 305. An act for the relief of Mrs. Felix Belanger;

S. 317. An act for the relief of Monroe Short;

S. 1033. An act conferring jurisdiction upon the Court of Claims of the United States to hear, examine, adjudicate, and render judgment on the claim of the legal representatives of the estate of Robert Lee Wright;

S. 1143. An act for the relief of Dayee Jones;

S. 1216. An act for the relief of Henry (Heinz) Gabriel;

S. 1220. An act for the relief of G. C. Barco and W. G. Knowles;

S. 1853. An act for the relief of the Rock Hill Stone and Gravel Co. of St. Louis, Mo.;

S. 1869. An act for the relief of certain claimants against the United States who suffered property losses as a result of the failure of the Big Porcupine Dam on the Fort Peck project, Mont.;

S. 2099. An act for the relief of Mrs. Reita M. Lary;

S. 2190. An act for the relief of Mrs. Marilla C. Gray;

S. 2191. An act for the relief of Clara Wrobliski;

S. 2264. An act conferring jurisdiction upon the United States District Court for the District of Connecticut to hear, determine, and

render judgment upon the claim of James H. Lane;

S. 2273. An act for the relief of Ruth D. and Henry L. Brittingham;

S. 2279. An act for the relief of O. R. Maxfield;

S. 2364. An act for the relief of former First Lt. William J. Tepsic, One Hundred and Seventy-sixth Field Artillery;

S. 2420. An act for the relief of Isabelle Fuller;

S. 2461. An act for the relief of Minnie C. Sanders;

S. 2506. An act for the relief of Angela Skeoch;

S. 2551. An act for the relief of Vernon Van Zandt; and

S. 2717. An act for the relief of Charles H. Koch.

The message also announced that the House had passed the following bills of the Senate, each with amendments, in which it requested the concurrence of the Senate:

S. 174. An act for the relief of Lyle L. Bressler; and

S. 2471. An act to amend the act entitled "An act to prevent pernicious political activities," approved August 2, 1939, as amended, with respect to its application to officers and employees of educational, religious, eleemosynary, philanthropic, and cultural institutions, establishments, and agencies, commonly known as the Hatch Act.

The message further announced that the House had passed the following bills of the Senate, each with an amendment, in which it requested the concurrence of the Senate:

S. 3203. An act for the relief of Bayard M. Atwood; and

S. 2317. An act for the relief of Lillian LaBauve Linney.

The message also announced that the House had agreed to the amendment of the Senate to the bill (H. R. 7121) to amend an act entitled "An act to establish a uniform system of bankruptcy throughout the United States," approved July 1, 1898, and acts amendatory thereof and supplementary thereto.

The message further announced that the House had passed the following bills, in which it requested the concurrence of the Senate:

H. R. 194. An act for the relief of the Upham Telephone & Electric Co., Upham, N. Dak.;

H. R. 1375. An act for the relief of Mr. and Mrs. Samuel Azer;

H. R. 1883. An act for the relief of Llewella J. Welsh;

H. R. 2217. An act for the relief of Wilson N. Yost;

H. R. 2370. An act for the relief of Constantinos Dardas;

H. R. 2650. An act to confer jurisdiction upon the Court of Claims to hear, determine, and render judgment upon the claim of H. Herfurth, Jr., Inc.;

H. R. 2899. An act for the relief of Myrtle C. Radabaugh;

H. R. 3113. An act for the relief of Cecil Higgenbottom, Mrs. Cecil Higgenbottom, and Basil Hall;

H. R. 3478. An act for the relief of Glenn A. Pike;

H. R. 3773. An act to confer jurisdiction on the Court of Claims of the United States to hear, determine, and render judgment upon the claim of John L. Alcock;

H. R. 4800. An act for the relief of Mrs. William Leo;



H. R. 5177. An act for the relief of Irving Cowen;  
 H. R. 5283. An act for the relief of Mr. and Mrs. Sebastian Eger;  
 H. R. 5651. An act for the relief of the Home Insurance Co. and the American Insurance Co.;  
 H. R. 5884. An act for the relief of Mrs. Maude C. Massey, Ocala, Fla.;  
 H. R. 5961. An act for the relief of Alfred Lee Poyner;  
 H. R. 5980. An act for the relief of the Fidelity and Casualty Co. and the Baugh Chemical Co.;  
 H. R. 6016. An act for the relief of Michael-Leonard Seed Co.;  
 H. R. 6061. An act for the relief of Mr. and Mrs. Werner M. Bertelson and Ellen W. Sessions;  
 H. R. 6078. An act for the relief of Katherine S. Arthur;  
 H. R. 6176. An act for the relief of Shirley Jones;  
 H. R. 6254. An act for the relief of Henry Angell;  
 H. R. 6283. An act for the relief of Franklin E. Ludwig, Mary Taylor, and Frank A. Taylor;  
 H. R. 6286. An act for the relief of Lee Watts;  
 H. R. 6337. An act for the relief of William H. Linhart;  
 H. R. 6380. An act for the relief of Charles S. Smith;  
 H. R. 6388. An act for the relief of William S. Chapman, Clyde Gilbert, Paul Scherbel, and Frank Childs;  
 H. R. 6491. An act for the relief of the heirs of John W. Adams;  
 H. R. 6558. An act for the relief of Anne Berbig and Alfred E. Berbig, Jr.;  
 H. R. 6591. An act for the relief of the estate of Emily Kraft, deceased;  
 H. R. 6619. An act for the relief of M. Ray Waldron;  
 H. R. 6721. An act for the relief of Mildred G. Gordon;  
 H. R. 6751. An act for the relief of J. C. Baker;  
 H. R. 6781. An act for the relief of the legal guardian of Lorraine Novak, a minor;  
 H. R. 6817. An act for the relief of Lloyd A. Emick;  
 H. R. 6841. An act for the relief of the Tours Apartment Hotel;  
 H. R. 6893. An act for the relief of N. C. Lloyd;  
 H. R. 6907. An act for the relief of Mrs. P. R. Yager;  
 H. R. 6938. An act for the relief of Rudolf Kligler (Robert E. Arden);  
 H. R. 6970. An act for the relief of Carolyn D. Griffin;  
 H. R. 6990. An act for the relief of G. F. Allen, chief disbursing officer, Treasury Department, and for other purposes;  
 H. R. 6993. An act for the relief of the estate of Marlin Croft, deceased;  
 H. R. 7061. An act for the relief of D. A. Sullivan & Sons, Inc.;  
 H. R. 7149. An act for the relief of David E. Clark;  
 H. R. 7177. An act for the relief of Earl Carbauh;  
 H. R. 7263. An act for the relief of Mrs. J. R. Bennett;  
 H. R. 7480. An act for the relief of Mrs. Claud Tuck and Darrell Claud Tuck, a minor; and  
 H. R. 7482. An act granting increase of pensions to certain dependents of veterans of the Civil War.

#### ENROLLED BILLS SIGNED

The message also announced that the Speaker had affixed his signature to the following enrolled bills, and they were signed by the Vice President:

H. R. 5719. An act to abolish the Guilford Courthouse National Military Park Commission, and for other purposes;

H. R. 6601. An act to reorganize the system of land offices and land districts in Alaska; and  
 H. R. 7152. An act to amend the Nationality Act of 1940 to preserve the nationality of citizens residing abroad.

#### HOUSE BILLS REFERRED

The following bills were severally read twice by their titles and referred as indicated:

H. R. 194. An act for the relief of the Upham Telephone & Electric Co., Upham, N. Dak.;  
 H. R. 1375. An act for the relief of Mr. and Mrs. Samuel Azer;  
 H. R. 1883. An act for the relief of Llewella J. Welsh;  
 H. R. 2217. An act for the relief of Wilson N. Yost;  
 H. R. 2650. An act to confer jurisdiction upon the Court of Claims to hear, determine, and render judgment upon the claim of H. Herfurth, Jr., Inc.;  
 H. R. 2899. An act for the relief of Myrtle C. Radabaugh;  
 H. R. 3113. An act for the relief of Cecil Higgenbottom, Mrs. Cecil Higgenbottom, and Basil Hall;  
 H. R. 3478. An act for the relief of Glenn A. Pike;  
 H. R. 3773. An act to confer jurisdiction on the Court of Claims of the United States to hear, determine, and render judgment upon the claim of John L. Alcock;  
 H. R. 5177. An act for the relief of Irving Cowen;  
 H. R. 5283. An act for the relief of Mr. and Mrs. Sebastian Eger;  
 H. R. 5651. An act for the relief of the Home Insurance Co. and the American Insurance Co.;  
 H. R. 5884. An act for the relief of Mrs. Maude C. Massey, Ocala, Fla.;  
 H. R. 5961. An act for the relief of Alfred Lee Poyner;  
 H. R. 5980. An act for the relief of the Fidelity & Casualty Co. and the Baugh Chemical Co.;  
 H. R. 6016. An act for the relief of Michael-Leonard Seed Co.;  
 H. R. 6061. An act for the relief of Mr. and Mrs. Werner M. Bertelson and Ellen W. Sessions;  
 H. R. 6078. An act for the relief of Katherine S. Arthur;  
 H. R. 6176. An act for the relief of Shirley Jones;  
 H. R. 6283. An act for the relief of Franklin E. Ludwig, Mary Taylor, and Frank A. Taylor;  
 H. R. 6286. An act for the relief of Lee Watts;  
 H. R. 6380. An act for the relief of Charles S. Smith;  
 H. R. 6388. An act for the relief of William S. Chapman, Clyde Gilbert, Paul Scherbel, and Frank Childs;  
 H. R. 6491. An act for the relief of the heirs of John W. Adams;  
 H. R. 6558. An act for the relief of Anne Berbig and Alfred E. Berbig, Jr.;  
 H. R. 6591. An act for the relief of the estate of Emily Kraft, deceased;  
 H. R. 6619. An act for the relief of M. Ray Waldron;  
 H. R. 6721. An act for the relief of Mildred G. Gordon;  
 H. R. 6751. An act for the relief of J. C. Baker;  
 H. R. 6781. An act for the relief of the legal guardian of Lorraine Novak, a minor;  
 H. R. 6817. An act for the relief of Lloyd A. Emick;  
 H. R. 6841. An act for the relief of the Tours Apartment Hotel;  
 H. R. 6893. An act for the relief of N. C. Lloyd;  
 H. R. 6907. An act for the relief of Mrs. P. R. Yager;

H. R. 6970. An act for the relief of Carolyn D. Griffin;  
 H. R. 6990. An act for the relief of G. F. Allen, chief disbursing officer, Treasury Department, and for other purposes;  
 H. R. 6993. An act for the relief of the estate of Marlin Croft, deceased;  
 H. R. 7061. An act for the relief of D. A. Sullivan & Sons, Inc.;  
 H. R. 7149. An act for the relief of David E. Clark;  
 H. R. 7177. An act for the relief of Earl Carbauh;  
 H. R. 7263. An act for the relief of Mrs. J. R. Bennett; and  
 H. R. 7480. An act for the relief of Mrs. Claud Tuck and Darrell Claud Tuck, a minor; to the Committee on Claims.  
 H. R. 2370. An act for the relief of Constantinos Dardas;  
 H. R. 4800. An act for the relief of Mrs. William Leo;  
 H. R. 6254. An act for the relief of Henry Angell;  
 H. R. 6337. An act for the relief of William H. Linhart; and  
 H. R. 6938. An act for the relief of Rudolf Kligler (Robert E. Arden); to the Committee on Immigration.  
 H. R. 7482. An act granting increase of pensions to certain dependents of veterans of the Civil War; to the Committee on Pensions.

#### REVENUE ACT OF 1942

The Senate resumed the consideration of the bill (H. R. 7378) to provide revenue, and for other purposes.

Mr. DAVIS. Mr. President, yesterday I asked that the amendment of the committee inserting section 138, employers' contributions to voluntary employees' beneficiary associations, be passed over. I have read the amendment and am in accord with it, and I move that the committee amendment be agreed to.

Mr. LA FOLLETTE. What is the request, Mr. President?

The VICE PRESIDENT. The Senator is referring to the committee amendment on page 108, line 13.

Mr. DAVIS. It is a proposal to insert section 138, covering employers' contributions to voluntary employees' beneficiary associations.

The VICE PRESIDENT. Does the Senator from Wisconsin have objection?

Mr. LA FOLLETTE. I have no objection.

The VICE PRESIDENT. The question is on agreeing to the amendment on page 108, beginning with line 13.

The amendment was agreed to.

The VICE PRESIDENT. The clerk will state the first amendment of the committee passed over, which appears on line 6, page 17.

The CHIEF CLERK. On page 17, line 6, it is proposed to strike out "32" and to insert "22", so as to read:

(2) Surtax net incomes over \$25,000 but not over \$50,000: Upon corporation surtax net incomes over \$25,000, but not over \$50,000, \$2,500, plus 22 percent of the amount of the corporation surtax net income over \$25,000.

Mr. LA FOLLETTE. Mr. President, in order to clarify the parliamentary situation, by the consent of the Senator from Georgia and the Senate, I should like to be permitted to offer an amendment which is in the nature of a substitute for the committee amendment on page 17, line 6, and also proposes to amend the House text on page 17, lines 3 to 10. I

ask unanimous consent that I may proceed in this manner.

The VICE PRESIDENT. Is there objection to the request of the Senator from Wisconsin?

Mr. GEORGE. I have no objection, Mr. President.

The VICE PRESIDENT. The clerk will state the amendment for the information of the Senate.

The CHIEF CLERK. It is proposed to strike out lines 3 to 10, inclusive, on page 17, and insert in lieu thereof the following:

(2) Surtax net incomes over \$25,000: Upon corporation surtax net incomes over \$25,000, \$2,500, plus 26 percent of the corporation surtax net income over \$25,000.

Mr. LA FOLLETTE. Mr. President, the people of the country and their elected representatives face the most difficult fiscal and tax crisis in the written history of the world. We have already appropriated or authorized contracts in excess of \$200,000,000,000. Our Federal expenditures for the current fiscal year will, in all probability, exceed \$77,000,000,000. Being confronted with this situation, it becomes imperative that we exercise the great plenary power of taxation to the best of our combined judgment in order that we may, if it be humanly possible, maintain the credit of our great Government, and levy this crushing burden upon the people and upon corporations in proportion to their ability to carry it. Any other course, Mr. President, falls short of the statesmanship which this critical hour in the history of our Republic should call forth.

I realize that in a situation of this kind, confronted with appropriations and expenditures of astronomical proportions, the judgment of honest, patriotic men will differ, but as I see it, it is an hour when each and every one of us must present our frank views and our honest convictions in the hope that in that sound democratic process which results from the clash of differing opinions we may hammer out on the anvil of legislative and administrative government a tax program which will strengthen and support our Nation through the dark years which lie ahead.

I differed, Mr. President, with my colleagues upon the Finance Committee in the particular amendment which is now before us. They proposed to reduce the taxes upon corporations below those adopted and passed by the House of Representatives. The Treasury of the United States, through the Secretary and through the general counsel, urged upon both the Ways and Means Committee and the Senate Finance Committee a maximum combined corporate rate of 55 percent. I supported that rate in the committee, but I am not proposing to offer it here. I am offering an amendment which is a compromise between the Treasury recommendation and the action of the House of Representatives.

Mr. President, as I stated at the outset, it is obvious that men will differ as to the appropriate burden which can be placed upon corporations and still not impair their functioning as a vital part of our producing economy in time of war.

I personally am convinced, after the best study of which I am capable, that corporations can bear the rates which are proposed in this amendment.

I am convinced of it because I feel certain, after discussing at great length with the representatives of the Treasury their reasons for having recommended a combined normal and surtax rate of 55 percent, that they, too, only made such recommendations after careful consideration and investigation which convinced them that the corporations under present circumstances could carry that much of a burden.

We must realize that when we relieve the burden in one place it must inevitably be transferred to some other, and that has been the net effect of the action of the Finance Committee. It recommends to the Senate a bill which proposes to reduce the total tax upon corporations under that adopted by the House of Representatives, and to place that burden upon individuals—individuals who, in my opinion, are not in any position to carry the increased load which is asked of them. I do not propose this morning to go into that question. I expect to discuss it at greater length when we reach the question of individual rates. But I do desire to bring this point home, if I can, to my colleagues in the Senate. Mr. President, we must determine our policies in this situation on the basis that the war may last for several years. Any other course will lead to disaster. If the war should terminate sooner than we expect, no harm will come from our having planned for a long war; but if the war should last longer than we anticipate and plan for, only disaster can be our lot.

Mr. President, in a long war the incidence and burden of taxation under these staggering rates become of increasing importance. We have reached the point where unjust taxation will hurt the morale of our people. It is vital, if we are to maintain morale in the dark years ahead, that the burdens of this war should be equitably distributed. The Finance Committee proposes to reduce corporate taxes and to increase the burden upon the lowest income groups to the point where their health and efficiency will be impaired, and thus we will find it more difficult to secure manpower replacements for our armed forces and for our industrial and agricultural production.

Mr. President, the total net income of corporations reporting net incomes has increased 146 percent from 1939 to 1942. In dollars this increase has amounted to \$9,915,000,000. The taxes to be collected from corporations in 1942 at existing rates are estimated at \$7,600,000,000. The estimated increase in corporation taxes in the Senate bill, excluding the post-war credit, amounts to \$1,482,500,000. The total corporation taxes under the Senate committee's version of the bill amounts to \$9,082,500,000. This, I wish to emphasize, is \$832,500,000 short of recovering the total increase in net income of corporations since 1939 as I have just indicated.

Let me now come to a comparison of this proposal with the House bill and the Senate bill. Under the House bill the in-

crease over existing law, insofar as the net revenue effect is concerned, amounts to \$1,968,200,000 from corporations. It must be borne in mind, however, that the House bill provides no post-war credit. It provides no debt relief. It has, in other words, none of the relief provisions which the Finance Committee, after due consideration, unanimously believed these high rates required.

In the Senate bill the net revenue effect in increase over existing law amounts to \$842,500,000. The net revenue effect of the proposal which I am offering, if combined with another amendment which I would offer if this amendment were agreed to, would be \$1,011,200,000 over existing law, or a gain over the Senate bill of \$168,700,000.

Mr. President, this proposal involves another issue. The Senate committee's version of the bill, as I view it, increases the burden upon the smaller corporations. It does so by providing that they may have only a \$5,000 specific credit insofar as their excess-profits tax is concerned. If my amendment should be adopted, I would urge the Senate to resist the amendment which appears later in the bill striking out the House provision which grants a specific credit of \$10,000 against the excess-profits tax. This can be done, Mr. President, as I have pointed out, and at the same time we will gain \$167,000,000 in the net effect of the revenue over the existing law. This will mean that 8,300 of the smaller corporations will be given additional benefit as a result of this increased specific exemption against the excess-profits tax.

I may say, Mr. President, that the estimates which I have given to the Senate are predicated likewise upon a 10-percent post-war credit against normal, surtax, and excess-profits taxes, insofar as corporations are concerned. This will result in building up for the corporations a much more substantial post-war credit than is provided in the Senate Finance Committee's version of the bill. I wish to point out that under the Senate committee's version of the bill there is provided a post-war credit which will amount, according to the Treasury estimates, to \$271,500,000.

The amendment which I am proposing would create a post-war credit of \$660,000,000. It is estimated that the Finance Committee's proposal would result in corporations getting only \$300,000,000 of debt-retirement credit, as against \$385,000,000 under the proposal which I am discussing.

Mr. VANDENBERG. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. SPENCER in the chair). Does the Senator from Wisconsin yield to the Senator from Michigan?

Mr. LA FOLLETTE. I yield.

Mr. VANDENBERG. I do not find in the pending amendment any provisions for debt relief or post-war credit. How does the Senator intend to achieve the results described?

Mr. LA FOLLETTE. I have already asked to open up this question so that I can amend the House text. The other provisions occur later in the bill, and I should have to offer additional amend-



ments to make those adjustments. For example, in order to provide that the post-war credit shall apply against the total corporation tax, I should have to amend a portion of the bill which is near the end of the bill; but I am trying to present this question as a whole. I think I am entitled to do so, because, after all, it is a total program for corporation taxation.

Mr. VANDENBERG. I quite agree to that; but it occurs to me that a vote on this particular amendment would scarcely do the Senator's program justice.

Mr. LA FOLLETTE. I do not quite know how I could achieve it all at once. As the Senator realizes, in the Finance Committee we can always get along by saying, "I have a proposal which involves a whole arm full of propositions. I tie them all together. Are you for it or against it?" However, on the floor of the Senate, where we must proceed under parliamentary rules, it is rather difficult to achieve that result.

I am simply saying that the estimates to which I have referred are predicated on the assumption that this amendment would prevail and that the amendment granting post-war credit against total corporation taxes would prevail. Thus I obtain the estimates, as the Senator will see, as to the various effects so far as the post-war credit is concerned.

Mr. VANDENBERG. Are the other amendments printed and available?

Mr. LA FOLLETTE. They are.

Mr. VANDENBERG. I think they should be before all Senators, so that the Senator can do justice to his presentation.

Mr. LA FOLLETTE. I thank the Senator.

Mr. President, I do not believe it is necessary to belabor the point. It must be obvious to every Senator that the greater the post-war credit the greater cushion we provide for corporations, and thus for the national economy, against the post-war adjustment period.

Mr. LEE. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. LEE. I hope the Senator will indulge me for a few questions.

Mr. LA FOLLETTE. I shall be glad to answer them if I can.

Mr. LEE. The Senator has offered an amendment. Specifically, what is that amendment?

Mr. LA FOLLETTE. My amendment proposes to change the corporation rates, so that the maximum combined normal and surtax rate would equal 50 percent, in contrast to the Senate committee's recommendation that the total should be 40 percent.

Mr. LEE. In other words, the amendment would increase the rate of the corporation tax?

Mr. LA FOLLETTE. That is correct. In effect, it would increase the surtax rate, because the House bill, the Finance Committee's recommendation, and my proposal all call for a so-called normal corporation tax of 24 percent. The controversy comes over how high the surtax rate should be. The House provided a surtax rate which would make the maximum combined rate equal 45 percent.

The Treasury recommended a maximum combined rate of 55 percent. My amendment would provide a maximum combined rate of 50 percent.

Mr. LEE. Does the Senator's amendment apply to the excess-profits tax provision?

Mr. LA FOLLETTE. The whole program would have something to do with the excess-profits tax, because I propose to make the post-war credit apply not only to the excess-profits tax, but to the surtax and the normal tax as well. I am sure the Senator understands that all corporations with net income, except those which have specific exemptions, pay the normal and the surtax rate. Then, if they have an excess-profits tax, they calculate it according to one or the other of two alternative methods, either the base period method or the invested capital method.

Mr. LEE. I understand that. The reason I asked the question was to find out to which method the amendment would apply.

Mr. LA FOLLETTE. I am not proposing to increase the rate of 90 percent on excess profits, because I think everyone will agree—at least I am certainly willing to agree—that that rate is as high as anybody should propose to go. The Treasury and nearly everyone else agree that if the 90 percent rate is to remain in the bill there must be relief provisions. That is the reason for the debt-retirement provision and the post-war credit provision.

Mr. LEE. Yesterday the Senator from Oregon [Mr. McNARY] raised the question of debt payment. Does the Senator propose an amendment to change that provision?

Mr. LA FOLLETTE. This proposal, like the others, would permit the utilization of post-war credit by a corporation to the extent of 40 percent of its debt payment in any one year, but in no case, of course, to exceed the accumulated post-war credit. In other words, if a corporation had \$100,000 of debts to pay, assuming that it had a \$40,000 post-war credit, it could utilize the \$40,000 of post-war credit in meeting its \$100,000 debt payment.

Mr. LEE. I thank the Senator.

Mr. LA FOLLETTE. Let me say to the Senator that in my opinion the creation of a post-war credit is the only feasible means—at least the only equitable means—of giving any debt relief to corporations. Otherwise we should be confronted with the unfortunate alternative of extending benefits and assistance to corporations which may have had a very extravagant and unfortunate fiscal policy, and not extending the same benefits and privileges to a corporation which may have conducted its fiscal affairs on a very sound basis. However, when we create a post-war credit, we can allow corporations which are in an unfortunate position insofar as their debt is concerned to utilize the post-war credit without discriminating against corporations which have adopted a more thrifty and frugal policy.

Mr. LEE. Just before I entered the Chamber the Senator gave some very interesting figures with respect to the in-

come of corporations, how much of that income the tax proposed by the committee would take, and how much the tax which the Senator proposes would take. I wonder if the Senator would be kind enough to repeat those figures. I did not catch all of them.

Mr. LA FOLLETTE. Is the Senator asking me for the difference in the yield from corporations, as between my proposal and the Senate committee's proposal?

Mr. LEE. Yes.

Mr. LA FOLLETTE. These figures are computed from the standpoint of the net revenue effect. Obviously we cannot count the post-war credit, because that will either be used for debt retirement or ultimately returned to the corporation. So when I use the term "net revenue" all those things have been deducted, and I am considering the question purely from the standpoint of what is actually in the Treasury "for keeps," in the sense that the Treasury does not have to give back other dollars to replace some of those collected.

The net revenue effect of the House bill from corporation taxes is an increase over existing law of \$1,968,200,000. Let me repeat that there are no relief provisions in the House bill.

The net revenue effect of the Senate committee proposal is an increase from corporations, compared to existing law, in an amount of \$842,500,000.

This proposal, combined with a \$10,000 specific exemption to help the smaller corporations against the excess-profits tax, and providing a 10 percent post-war credit against the normal, the surtax, and the excess-profits tax combined, would produce \$168,700,000 more than the Senate Finance Committee's proposal. Its net revenue effect altogether represents an increase over the existing law of \$1,011,200,000. The net revenue effect of the House bill, without any relief provisions, is an increase of \$1,968,200,000 over existing law.

Mr. VANDENBERG. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. VANDENBERG. As I understand, the Senator is now applying a total normal and surtax rate of 50 percent.

Mr. LA FOLLETTE. That is correct.

Mr. VANDENBERG. Against which there would be a 10-percent post-war credit.

Mr. LA FOLLETTE. Yes.

Mr. VANDENBERG. So the effective net rate which the Senator is proposing is 45 percent; is that correct?

Mr. LA FOLLETTE. Yes. To all intents and purposes the proposed rate would have the same net effect as the House rate without any post-war credit.

Mr. VANDENBERG. That is what I was attempting to indicate.

Mr. BROWN. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. BROWN. There will be before the Senate really three issues. The first is the La Follette amendment. If the La Follette amendment is adopted, that will settle the question. If it is defeated, then there will still be two issues; that is, the

45-percent House rate and the Senate committee amendment.

Mr. LA FOLLETTE. That is correct.

Mr. BROWN. Those are the three issues which would be before the Senate.

Mr. LA FOLLETTE. Those are the three issues; but what I want to emphasize again is the fact that under my proposal it would be possible to extend the post-war credit so that it would apply to all corporate taxes. It would build up a larger post-war credit than would the Senate Finance Committee's proposal which only proposes to grant a post-war credit to corporations that pay excess-profits taxes.

Mr. GEORGE. Mr. President—

Mr. LA FOLLETTE. I gladly yield to the Senator from Georgia.

Mr. GEORGE. The Senator from Wisconsin knows very well that we put into the bill a provision for the appointment of a committee to study the whole question of post-war credits; and he also knows very well, does he not, that if we are to have any post-war compulsory loans or post-war credits the program must be integrated with the individual and corporate rates. Would it not be very much wiser, purely as a matter of justice to the committee or to the special committee or subcommittee which is to be appointed, to proceed to consider these rates without now trying to inject into the bill any question of post-war savings? That is the real reason why we did it.

I do not agree with the Senator on his 50-percent tax on corporations.

Mr. LA FOLLETTE. I know that.

Mr. GEORGE. But at the same time it may be that when we provide for post-war credits or compulsory loans we shall be obliged to go to 50 percent, and we may have to go up 10 percent on the tax on individuals. Certainly, if we get anything like the compulsory loan that the Treasury is obliged to have we shall have to increase rates on individuals and corporations for that purpose; and at that time the question of post-war credits or credits for debt payments can very properly be taken into consideration.

In all good faith the committee has given consideration to the question of rates, and, as the Senator very well knows, it has done so over a period of days and weeks; and in all good faith the Treasury should recognize the fact that the committee gave honest consideration to its recommendations about the rates. The committee did not agree with it as to a rate of 55 percent or 50 percent; and although we did at first take the 45 percent rate on certain post-war credits, we finally decided that the post-war credits should go out insofar as the surtax was concerned, and that the rate itself should go down to 40 percent.

I am not complaining, but it seems to me that when a committee honestly works for many weeks over these questions, even the Treasury of the United States should recognize that the Congress is the policy-making body, and should not undertake in any way to upset what the committee has done after it has given patient and honest consideration to every question which the Sen-

ator from Wisconsin is now bringing back into consideration on the floor. I do not think it is conducive to sound legislation, and I am not interested in any political adornments to the bill. I have not proceeded on that theory, and I shall not do so.

Mr. LA FOLLETTE. Mr. President, I do not know what the Senator from Georgia is referring to; but if he is inferring that I am acting here in behalf of the Treasury, I wish to disabuse his mind and that of every other Senator on that point. I have always been able to stand on my own feet, and when I am no longer able to do so I hope I shall be summarily retired from this body.

The Senator from Georgia and I have sat side by side for weeks in deliberations on the bill. I have tried to cooperate with him in shortening consideration of the measure. I have tried to cooperate with every other member of the committee; but every Senator on the committee will bear me out when I state that I said again and again, and I so indicated by my votes, that I intended to raise these issues again on the floor of the Senate. That has always been my policy in the committee.

Let us be entirely frank about it, Mr. President. The Finance Committee is a very conservative committee of the Senate. We cannot find one that is more so. I represent on that committee what I choose to call a liberal or progressive point of view. I am in the minority. I think my colleagues will say that I take my drubbings in the committee in good spirit; but it does not necessarily follow that because I am run over in the committee I shall be silenced and denied my opportunity to present here what I think are important and necessary amendments in connection with the bill.

Mr. GEORGE. Mr. President, I am not suggesting that the Senator does not have a right to bring them up, and I am not suggesting that he should be silent. I am pointing out to the Senator that he himself agreed to an amendment providing for the appointment of a committee to consider the whole question of post-war credits and compulsory savings. Such an amendment is in the bill.

Mr. LA FOLLETTE. Yes, Mr. President; I agreed to that in the committee when I saw that the Finance Committee was determined to postpone consideration of this vital issue; but I am not reflecting on those who are to be appointed upon the committee when I say in all frankness that I do not expect to see any report from that committee by the 1st of December. Too often since I have been a member of the Finance Committee have I been met in the committee and on the floor with the statement that there was some other time when the matter at hand was to be considered. Look at what has happened to the subcommittee and the recommendations of the subcommittee of the Senator from Michigan. It worked for many long months on the question of taxation of exempt interest. What has ever happened to that committee? I have been assured again and again that there would be a general revision of the income tax laws, that we were going to revise our

revenue structure, and I have always urged and welcomed it; but it has never happened. It is still a structure that grew like Topsy; and the higher the rates and the more crushing the burden, the more important and vital the inequities become to the people.

Mr. President, I respect every member of the Finance Committee. I respect the sincerity of its members; I respect their honesty of conviction. I respect their patriotism. But, with all due respect to that committee, Mr. President, it is the Senate of the United States which must decide these issues, not the committee alone. If the time ever comes when the committees of Congress are to absorb all responsibility and to make pleas upon the floor of the Senate that the Senate should follow them because they have worked hard, then, I say, we might as well do away with Senate consideration of measures, and report them here from committees, and pass them as a pro forma matter.

Mr. BROWN. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. BROWN. I am sure that the Senator meant to compliment the subcommittee of which the Senator from Michigan is a member.

Mr. LA FOLLETTE. I was citing it as an example of a subcommittee which had worked hard, but which, to my certain knowledge, has been promised on no less than three separate occasions when we refrained from urging the proposition here on the floor of the Senate that it would be taken care of in the next tax bill; but it never has been.

Mr. BROWN. I disagree with the Senator as to that. We had three major propositions. One was the taxation of public salaries, State and Federal. The second was the taxation of income of Federal judges. The third was the taxation of outstanding municipal bonds. Two of those propositions have been written into law, and I am very happy to say that the third proposition—not to the satisfaction of the Senator from Wisconsin or to the satisfaction of the Senator from Michigan—was finally approved by the Senate Finance Committee; and it is my sincere hope that the Senate will agree to and that the House will concur in the amendment which the Finance Committee adopted—that is, that we shall tax all future issues of municipal bonds.

Mr. LA FOLLETTE. Mr. President, I still say that the Senator from Michigan and his subcommittee are Exhibit No. 1 of the device of avoiding an issue by saying that we shall have a committee which will take care of the situation in the near future.

It would do no harm, let me say to the Senate, to let my amendment go into the law; for with it in the law there would be all the more inducement for the committee to conclude its deliberations and to make its report.

In addition, Mr. President, let me say that, so far as my post-war credit amendment is concerned, it cannot be enacted too soon, when we consider how long the pending measure has been under discussion in the House and in the Sen-



ate. The House started last March; and here it is the 7th day of October, and the bill has not yet been passed by the Senate.

We are now in such a fiscal situation that, in my opinion, we cannot afford further delay. Delay simply invites trouble.

In conclusion, Mr. President, I may say that in deciding on this issue Members of the Senate will have to determine whether they believe in establishing a post-war credit of more substantial proportions while at the same time requiring corporations to furnish a larger share of the increased burden of the pending bill. In my judgment, that is what it boils down to, coupled, I may emphasize, with a proposal which would grant to the smaller corporations twice as much relief against the excess-profits tax as the Senate committee recommends. According to the estimates furnished me, this would mean that an additional 8,300 corporations would receive the benefit of a specific exemption against the excess-profits credit.

Mr. TAFT. Mr. President, I have the greatest respect for the opinion of the Senator from Wisconsin and share his feeling as to the general burden of taxation. I do not think that the Senate Committee on Finance is a conservative committee in any sense, except in its desire to keep the country going and provide the very best possible economic background for the success of our efforts in the present war; and that is the purpose of the rate which has been agreed upon.

There are many things in the bill with which I do not agree, and yet it seems to me the general question of the burden of corporate taxation has been settled in a reasonable and fair way. The Senator proposes, in effect, to increase on corporations the tax of 40 percent on normal earnings, which the Senate committee recommends, to a net 45 percent, as I understand, or to a gross 50 percent, of which 5 percent would be returned to the corporation after the war. I myself am not very much in favor of the post-war credit idea; but the question as to whether it should be 50 percent with 5 percent returned to the corporation, or 45 percent is, perhaps, not so very important. The question is, Shall the rate be more than 40 percent on normal earnings?

As I understand, what we do with a corporation is to take all its earnings and divide them into two classes. We say that this much is normal earnings; we determine what the normal earnings are and say that all earnings over that amount are excess earnings. We then apply the 40-percent rate to the normal earnings, and we apply the 90-percent rate, with a kick-back, to the excess earnings. That means that after we have determined what a corporation was earning in normal times, we go to them and say, "We will take 40 percent of that away from you in the form of taxation." If formerly, as in the case of public utilities, we were allowing them a 6-percent return as a perfectly normal controlled return, after we apply this tax, they will get only 4 percent instead of 6 percent,

which they would have normally received, assuming that there are no excess earnings of any kind.

The Joint Committee on Taxation from the beginning has maintained that the corporate tax rate should not be over 40 percent. The Treasury has maintained that it should be 55 percent. After considerable discussion, the House fixed it at 45 percent, and the Senate committee decided that, considering the whole picture, 40 percent was fair.

We have a problem of financing the war. Assuming this year we are going to spend \$77,000,000,000 out of a national income of \$120,000,000,000, it is fairly clear that we cannot possibly pay the whole \$77,000,000,000 by taxation without impoverishing the Nation. There is a point beyond which taxation cannot go. The plan suggested by the Secretary of the Treasury yesterday, proposing to take \$30,000,000,000 in taxes, means that he will have to borrow \$45,000,000,000. This bill involves increasing the yield from taxation by seven or eight billion dollars. But the larger problem is, How are we going to borrow the forty-five or fifty billion dollars?

What we do here is not going to make that problem very much easier; in fact, I cannot see that it makes very much difference whether we raise a billion dollars more or a billion dollars less by taxation, because it is only a small part of the total problem, and we have to determine in taxing individuals and in taxing corporations whether we are going to impose such a burden that more harm will be done than if we raise the money by borrowing. It is a question of degree; there is no great question of principle involved in the question whether we shall tax corporations \$8,000,000,000 or \$9,000,000,000. It is a question of degree, I admit; no one can be sure that he is right; and yet I feel confident that we would be endangering production and endangering the safety of the Nation if the burden were made too great.

However, whatever the proper degree may be, recurring for a moment to the bond question, I say that is more important even than the question of taxation. I wish to call attention to the fact that it is a problem entirely within the jurisdiction of the Treasury and one on which, up to date, they have practically failed to carry out an effective policy.

I should like to refer to a few figures. In 1918 we financed the entire war through taxes and through bonds sold to the people, except for about \$3,000,000,000 and again in 1919 except for about \$3,000,000,000. In other words, we avoided serious currency inflation because we succeeded in having the people put their savings into the necessary bonds; and the only gap, the only amount that the commercial banks were called upon to pay, was about \$3,000,000,000 in each of those 2 years.

Today, in 1942, we are calling upon the commercial banks to buy six and a half billion dollars of bonds, and in 1943, according to every plan the Secretary of the Treasury has proposed, he is going to call on the commercial banks to buy \$25,000,000,000 of bonds. In other words, the effort to find money in a way which

will avoid inflation, the effort to get people to put their savings which they cannot put into goods into bonds, has almost completely broken down.

The most important thing we have before us is the compulsory savings plan to try to get money for bonds, but, in addition to that, it seems to me that even before we go to that the problem of raising money by voluntary contributions should be pressed to a far greater extent than the Secretary of the Treasury has pressed it.

Mr. DOWNEY. Mr. President—

Mr. TAFT. I yield to the Senator from California.

Mr. DOWNEY. The distinguished Senator from Ohio has just criticized the result of the Treasury bond-selling campaign in this war as compared to the last one, and in support of his criticism he has shown the greater amount of borrowings from commercial banks which will be necessary under this program than during the last war. Does not the Senator think that a better measure as to the respective merits of the bond-selling programs of the two periods would be the amount of bonds sold by the Treasury in the last war and the amount of bonds sold by the Treasury at this time? I think, if the Senator makes such a comparison, he will see that we have sold bonds just as well or better at this period than we sold them the other period.

Mr. TAFT. I will give the Senator the comparison. In the year 1918 we sold otherwise than to commercial banks \$4,000,000,000 in bonds, and in the year 1919 we sold \$19,000,000,000 in bonds, whereas in the year 1941 we sold only \$4,400,000,000 in bonds outside the banks, and in the year 1942 we have only sold \$15,000,000,000 in bonds outside the commercial banks, or \$3,000,000,000 less than we sold in 1919, when the national income was just half what it was in the year 1941.

So I think I have answered the Senator's question. We have succeeded in selling a good many more bonds to the banks than we did at that time, because, of course we made the banks take them.

Mr. BROWN. Mr. President—

Mr. TAFT. I yield to the Senator from Michigan.

Mr. BROWN. I do not think the Senator's figures correctly picture the situation, unless he gives the tax figures in conjunction with them. Taxes in 1919 were not nearly so high as they were in 1941.

Mr. TAFT. The Senator is correct, but they were almost as high as in 1941, for in 1919 there were eight and a half billion dollars net receipts and in 1941 \$9,300,000,000, whereas in 1942 they will be twelve and a half billion dollars, and we expect to raise \$20,000,000,000 or more in 1943; but the nonbanking purchases of Government securities now estimated for the year 1943 are only \$19,000,000,000 as compared to \$19,000,000,000 in 1919.

It is fairly obvious that if we want to get all the extra money which is available because of governmental expenditures, we will have to induce the people to put their money into bonds, and I believe that if we inaugurate a campaign somewhat similar to those inaugurated

during the last World War, we can sell twice as many bonds as we are selling under the present plan.

I merely wish to make the point that the bond end of the present financing is even more important than the taxing end, and that even under the plan of the Secretary of the Treasury we cannot possibly raise more than about 40 percent of the money from taxes. Whether we raise 40 percent or 38 percent is insignificant, in my mind, in comparison with the question whether we are imposing a fair burden, and one which will not seriously derange corporation life, the machinery of business, and the individual standards of living in this country.

I might say that the bank holdings of Government bonds, which means bonds which have not been sold to the people—the market where they should be sold—increased \$900,000,000 in the first 3 weeks in September. They have increased \$5,000,000,000 since April. That \$5,000,000,000 is the creation of purchasing power out of thin air. We take it from the banks and they create that much in the way of deposits on the books, and those deposits are passed on to people and are available to them for spending.

The difficulty from taxing too heavily is obvious. It destroys incentive. It is all very well to say that people should be patriotic. The fact is that if they are to lose money on a farming operation, or a business operation, or any other operation, if they are to involve themselves in debt which may wreck their economy, they naturally do not go on. They know they could not go on very long, anyway, before they would find the bankruptcy court. Too great taxation may wreck the country, and may wreck the entire success of the war.

Now I wish to refer to the question of corporations.

Mr. BROWN. Mr. President, before the Senator leaves the question of purchases by banks, I recall that he and I discussed this question on the floor of the Senate on a previous occasion, but I think the Record should show that so-called commercial banks, such as the banks chartered by the Federal Government, the national banks, are pretty largely savings banks as well as commercial banks. My own judgment is that in the State of Michigan, particularly outside the great cities, approximately half the liabilities of national banks are in the form of savings accounts, and, insofar as the purchases referred to are made out of savings accounts, they are not inflationary. Insofar as they are made out of commercial accounts, I agree that they are. I am in general agreement with the proposition which the Senator from Ohio lays down, but I want the Record to show that a considerable amount of the deposits in so-called commercial banks are savings deposits, and insofar as bonds are purchased out of savings, such purchases are not inflationary.

Mr. TAFT. Mr. President, I question the Senator's conclusion. I have not the figures at hand to answer his statement, but I know the figures I gave do not include the purchases of savings banks.

As to the savings departments of commercial banks, I think the figure would be very small. The increase in those savings deposits might not be over one or two billion dollars in a year, and we are asking banks to take \$25,000,000,000 of bonds this year. So, while the suggestion of the Senator may be partially based on facts, certainly it affects a very small percentage of the figures I have given.

I should like to review for a moment the over-all picture of what we have done. I do not guarantee these figures, but they will give roughly an idea of where we are coming out.

My figures show that we will raise about \$23,000,000,000 in taxes a year when we get through with the program. Of that amount, under the Senate committee bill, we will raise approximately \$9,000,000,000 from corporations and will raise approximately \$10,000,000,000 from individual incomes. We will raise about \$524,000,000 from estate and gift taxes, about \$2,400,000,000 from liquor and tobacco taxes, \$447,000,000 from automobile and gasoline taxes, and about \$775,000,000 from other sales taxes.

Out of the total corporation income, estimated for this year at approximately \$17,000,000,000, we are taking in taxes nine billion, or somewhat more than half the total corporation net income. Of the total of \$95,000,000,000 of individual net income, we are taking about \$10,000,000,000. It is not quite a fair comparison, because of course the corporation figure is a net figure, and the individual net income figure is after certain deductions, but not after the deduction of living expenses. Nevertheless, the comparative burden on the corporations is very great.

Furthermore, all the corporations are owned by individuals who receive the benefit of corporation earnings through the distribution of dividends. In addition to taxing the corporation earnings when they are received, we also tax them when they are distributed to individuals.

Mr. VANDENBERG. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. VANDENBERG. I do not think the Senator can overemphasize the point he is now making, because we will never get \$10,000,000,000 from individual taxpayers by means of the pending tax bill if we rob the corporations of the country of their chance to maintain a normal dividend policy. That is my great fear in attempting to go further than we have gone in the Senate committee bill. I remember that in a hearing before the committee we were told at one time that 155 of the leading manufacturing corporations of the country would find 73 percent of their net income absorbed by the House rate. When we speak of 155 corporations, the reference has no particular impact on the public conscience, because "155 corporations" sounds like 155 abstract units with which we can do what we please and it does not make much difference. But I took the trouble to ask at the source of that information what those 155 corporations represented by way of stock ownership, and I discovered that in dealing with the 155 leading corporations we are dealing with 2,408,000 stockholders, and that 47 percent of the

dividends of those 155 leading corporations goes to people with incomes under \$5,000 a year.

The Senator is therefore completely justified when he suggests that when we are discussing corporate taxes we are really discussing the very bone and sinew of the subsistence of millions and millions of people of the country who can go nowhere else for their existence.

Mr. TAFT. The Senator has made the point I was discussing better than I could make it.

Corporate taxation is double taxation. We once gave a credit to individuals who received dividends because they had already paid a tax on them, and then we took it away. So today no credit is allowed, and there is clearly double taxation. If we impose upon corporations so heavy a tax that we force them to reduce their dividends, as the tax now proposed would do, it will be placing a very heavy tax upon corporate stockholders. We may not care about the wealthy corporate stockholders, but there are many people who in old age derive their income from corporations in which they have invested their money, and which they have perhaps served throughout their lives. Those people are likely to find, before they begin to pay their individual income tax, that their dividends have been cut in half, before the individual tax rates are applied. So, unless we eliminate some part of this double taxation, it seems to me that to take even as much as 40 percent makes the total tax extremely unfair to those who have invested in common stocks as against those who have invested in bonds, real estate, or property of any other kind.

Mr. VANDENBERG. Will the Senator yield again?

Mr. TAFT. I yield.

Mr. VANDENBERG. Further, in line with what the Senator and I have been discussing about how the impact of corporation taxes, as affecting dividends, goes down into the very lowest income group brackets of the country, and into the mass rank and file of the land, I call attention to the following interesting statistics: Eighty percent of General Motors 396,000 stockholders own less than 50 shares apiece. Seventy-five percent of 750,000 stockholders in the American Telephone & Telegraph Co. own less than 25 shares apiece. We are dealing with the mass of our people when we are dealing with the ownership of corporations.

Mr. TAFT. I think it should be said that wages have not been decreased. In fact, the Government has, if anything, pursued the policy of increasing wages. Certainly the total amount of wages has greatly increased. Farm income has greatly increased. There seems to be no particular reason why we should decrease dividends on normal profits, and this is merely a question of normal profits. So far as excess profits are concerned, we take 90 percent of them. But the normal profits have been made in time of peace, and I can see no more reason for reducing the dividend of those who have saved their money and put it into that form of investment, than for reducing wages or prices. The situation of people receiving wages, of farmers receiving



prices, as well as of individuals receiving dividends, should be dealt with by an income tax on their individual incomes, and those incomes should be reduced as much as we think can be done in an equitable way, but there seems to be no reason for discriminating against the people who happen to be living, in old age or otherwise, on dividends received from investments which they may have made.

Mr. HOLMAN. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. HOLMAN. I should like to know how 40 percent was determined as the dividing line. Does that represent the highest tax which in the judgment of the committee could be imposed at this time and still permit the corporations to continue in business?

Mr. TAFT. That is approximately the division. No one can say absolutely that there is one point beyond which corporations cannot continue in business. This is as far as we thought we could go. Last year it was 31 percent. We raised it then from 24 to 31 percent. Now we are raising it to 40 percent. Personally I think that is too high. After all, this is a tax on a business machine. That machine must continue to operate. The important thing is to keep the machine in operation, to keep it going, to encourage it to go on, to encourage it to produce the things which are necessary for war.

As a matter of fact, it is not a question of individual earnings. If, as the Senator from Georgia [Mr. GEORGE] said yesterday, we could attribute to individuals the earnings made by corporations, and tax only individual earnings, whether they are distributed or not, that would be a much more logical system of taxation than we now have. We find it convenient, however, to take money from the business machine. It is easier to get it as it goes by. It serves the purpose of preventing excess profits, and so we get it there. But we certainly do not want to impose a tax at a rate which will discourage the operation of that machine, because in the end the question is not one of corporate burden; the question is one of what is the burden on individuals.

Mr. GEORGE. Mr. President, will the Senator yield to me at that point?

Mr. TAFT. I yield to the Senator from Georgia.

Mr. GEORGE. I think the Senator from Ohio is quite right in discussing the question from the only point of view from which one can approach the question properly. I pointed out yesterday in my brief statement that even in the lowest brackets the normal and surtax rates on individuals are now 19 percent, plus 5 percent victory tax, making 24 percent, and to add 40 percent to that makes a tax of 64 percent upon every dollar of dividend income the taxpayer receives. To increase it to 50 percent would increase the actual rate on the individual in the lowest brackets who received a single dollar of dividend income, to 74 percent. To my mind that is the decisive thing which should be kept in consideration in addition to the other matters which the Senator from Ohio has ably brought to the attention of the Senate. The figures I gave apply only in the low-

est brackets. There are, by and large, several million persons in the United States who receive a great part of their actual income from dividends on the stock of various kinds of corporations.

Mr. TAFT. Mr. President, I might say that the total of dividends paid in the United States is not a tremendous factor. It was \$4,000,000,000 in 1940 out of a national income of approximately \$80,000,000,000. It was estimated to be about \$5,000,000,000 in 1941. The Treasury estimates that it will be \$4,700,000,000 in 1942 under this bill. Personally I think it will be much less in 1943 for the reason that the tremendous activity which is going on in connection with the war requires corporations to keep a large amount of the money with which to make improvements, to extend their plants, to pay their debts, and to do a great many things which are not necessary in times of normal activity.

Mr. BARKLEY. Mr. President, will the Senator yield at that point?

Mr. TAFT. I yield.

Mr. BARKLEY. I think it is true that of the total amount of dividends paid in 1940 and 1941 and of those which are estimated to be paid this year, 29 percent is received by persons whose annual income is less than \$5,000.

Mr. TAFT. I am glad to have the Senator's statement of the exact figures on that question.

Mr. BROWN. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. BROWN. I should like to put in the Record the figure which the Senator from Ohio and I were disputing some time ago as to the amount of so-called commercial deposits in all banks of the United States, including National, State, Federal Reserve, and private banks, and the total amount of so-called savings deposits. I have in my hand the report for the year ending October 31, 1941, the last available report of the Comptroller. The so-called commercial deposits are \$50,602,000,000. The total amount of time deposits is \$27,000,000,000. In other words, the time deposits in all banks in the United States are somewhat over 33 percent of the total.

Mr. President, I think that very well bears out my contention that the Senator should deduct the bond purchases which are made out of savings deposits by commercial banks and other banks.

Mr. TAFT. Mr. President, I still maintain that a very small proportion of the additional \$30,000,000,000 of bonds which is going to be sold to banks next year will come out of those savings. I shall be glad to make a more complete study of the question and submit the figures tomorrow when I have had the opportunity to examine the figures submitted by the Senator from Michigan. I think the amount of bonds sold for commercial account is very much greater than two-thirds of the total amount of bonds sold to the banks.

Mr. President, the general answer made by the Treasury to the fears expressed by those who think the corporations will be hampered, is that they are going to make so much more money this year that they will have more money left

after this tax than they have today. That is not quite true, but roughly speaking, I personally would be in favor of a much lower tax than 40 percent, except for the fact that there is much greater activity, and undoubtedly there is much greater income. Roughly speaking, in 1940 the corporations' income, before taxes, was \$9,000,000,000, and they paid two and a half billion dollars in taxes. So they had six and one-half billion dollars left in 1940, out of which they paid \$4,000,000,000 in dividends.

In 1941 their income, before taxes, was closer to \$15,000,000,000, and they paid taxes of \$6,600,000,000, leaving about \$8,400,000,000 after taxes, of which they paid \$5,000,000,000 in dividends.

For 1942 there are a number of estimates, but, roughly speaking, it is estimated that corporation profits are going to be about \$17,000,000,000, and that the tax will be \$9,700,000,000, leaving a total income of about \$7,300,000,000 under our bill. Under the House bill only about \$6,300,000,000 would remain out of \$17,000,000,000 of income. Under the Senate bill there will be a billion dollars less than there was in 1941, but more than there was in 1940, and probably more than there was in any other year in recent times. I think it will be enough.

But we must remember that in a business activity which is two or three times greater than it was in 1940 and 1939, the corporations require much more money. It is a practical impossibility today to sell bonds or stocks. If a corporation wishes to expand its plant it must take money out of earnings, and it must have the earnings. If a corporation borrows money to expand its plant, and has to pay its debts, it must get the money from earnings. While possibly we can reduce the net income of corporations from \$8,400,000,000, which it was in 1941, to \$7,300,000,000 without creating difficulty, I think that is as far as we ought to go. If we go below that figure I think we will not leave enough to keep the machine oiled and greased.

Mr. President, we have to remember that war profits are distributed most unequally. Some people make much money. A great many corporations are not making any money at all or are losing money. We cannot simply take an average and say, "This is the average, and so we ought to get that average." If we could do that with individuals it would be nice. "Out of an income of \$95,000,000,000 everyone ought to cut his income one-third, and so we will simply take \$30,000,000,000 from that total." That is a nice theory, but when we come to do it we will find that it is all right with respect to Mr. A, but it imposes an unendurable hardship on Mr. B; it forces him into poverty, whereas before he was in fairly reasonable condition of living. We simply cannot take averages. So if we step in and take on the average over 50 percent of the net income of corporations, and if we take \$9,000,000,000 out of \$17,000,000,000, some corporations may have plenty left, but there will be a great many that will not have enough left.

I think it is a question of judgment. I do not know how far we ought to go,

but I say that the taking of an additional \$1,000,000,000 out of a total estimate of \$17,000,000,000 of income is not justified in view of the fact that it will endanger the entire operation of our business system, and I believe the tax ought to stay at 40 percent. The committee has reached that judgment after hearing witnesses from all over the country and after hearing from the Treasury, and I believe the committee's decision ought to stand.

The PRESIDING OFFICER (Mr. TYDINGS in the chair). The question is on the amendment offered by the Senator from Wisconsin [Mr. LA FOLLETTE].

Mr. BYRD. Mr. President, I wish to state very briefly my reasons for opposing the amendment offered by the Senator from Wisconsin. The existing tax on corporations, normal and surtax, is 31 percent. The amendment proposed by the Senator from Wisconsin would increase this tax to 50 percent. That would be an increase of 66 percent in the tax.

The bill as reported by the Senate Finance Committee increases the excess-profits tax to about 90 percent from a graduated tax of 35 percent on the first \$20,000 to 60 percent on profits over \$500,000—which is an average excess-profits tax of about 50 percent. This is nearly double. In addition, the bill as reported by the Senate Finance Committee would change the excess-profits credits so that corporations with larger investments would receive less excess-profits credits than they have heretofore received.

I believe that we should give consideration to the fact that when we unduly and excessively increase the taxes on corporations we prevent them from paying dividends, and thereby reduce the taxable income of individual taxpayers. If the amendment of the Senator from Wisconsin were adopted, the average taxation of the average corporation would be 56 percent. In other words, taking all the net income of the corporations of the country, 56 percent would be consumed by taxation.

We must remember, Mr. President, that a corporation may make a substantial profit and not have a cash profit. The profit may be in inventories. It may be used for necessary plant expansion, and other matters of that kind, or for debt payment. So if by excessive taxation we prevent a corporation from building up its inventory or paying its debt obligations, or improving its plant facilities, we eventually destroy it. Members of the Finance Committee will remember that time after time during the long hearings which were held officials of corporations came before the committee and stated that if the House bill were adopted many corporations could not pay the obligations which they have legally incurred for debts, expansion, or for other purposes. Let us recall that the House bill is 5 percent less in the normal and surtax combined rate than the amendment proposed by the Senator from Wisconsin.

Dividends received by individual taxpayers from corporations are not exempt, even from the normal tax. That exemption was removed some time ago. Therefore, if the amendment of the Senator

from Wisconsin were adopted it would prevent many corporations from paying their normal dividends, and loss would occur by reason of the fact that the dividends in the hands of individuals would be reduced and therefore not taxed. Worse than that, many corporations would be forced out of business.

The corporate structure of the business of this country is the foundation-stone upon which the private business enterprise system is established. Destroy the corporations of the country and you destroy the business enterprise system of America. I am not thinking, as some of my colleagues appear to think, that a corporation is one great single entity. A corporation is composed of thousands of stockholders. As I recall, the American Telephone & Telegraph Co. has 600,000 stockholders. Six hundred thousand persons own the American Telephone & Telegraph Co., with a very small average ownership. We are not punishing an abstract corporation when we place excessive and burdensome taxation, larger than they can bear, upon the corporations of this country. We are punishing the average individual American citizen who owns stock in those corporations; and a great proportion of our citizens do own stock in various corporations.

There are about 500,000 corporations in America, and we have no way to ascertain the exact effect upon each individual corporation of the excessive taxation which it is now proposed to place upon them. Some wealthy corporations which are in good financial condition and out of debt, and which have a large invested capital, can perhaps pay excessive taxation and still survive; but the smaller corporations, corporations which are in debt, and which are forced to make substantial yearly, or perhaps monthly, payments in accordance with their debt obligations, cannot survive if the taxation is made too excessive.

I believe that nothing would be lost and much would be gained by so arranging the corporate tax rates that the average corporation—and I speak of the smaller corporations, those which have debts and which have not access to the markets for the sale of bonds to finance their enterprises—may meet its obligations. The war effort would be vastly promoted if the taxation on corporations were made moderate. The Treasury would lose little, if anything, because profits made by corporations may be declared in the form of dividends, and those dividends in the hands of individuals who own stock of the corporations would be taxed.

If an individual in the higher brackets receives a dividend from a corporation he must pay a much higher tax to the United States Government than would the corporation if the corporation itself in the first instance paid the tax. Under the terms of the bill the average American citizen who has an income of \$25,000 would be permitted to retain \$15,000 of it. That is not so bad; but he would be permitted to retain only \$6,000 of the next \$25,000 which he makes. Of the third \$25,000 he would be permitted to retain only \$5,000. Of the fourth \$25,000 he would be permitted to retain

only \$4,000. Of the second \$100,000 which he makes he would be permitted to retain only \$9,000. So an American citizen who makes an income of \$100,000 would be permitted to retain \$30,000. From the second \$100,000 he would pay 91 percent to the Treasury of the United States. I am not objecting to that. I think that is necessary.

The point I am trying to make is that if a man in the \$100,000 bracket should receive a dividend from a corporation he would pay a tax of 91 percent on that dividend. Thereby, as a general principle, the Government would receive more revenue than if the dividend was not declared and taxed under the corporation taxation, which, as I have stated, is an average of 56 percent as proposed by the Senator from Wisconsin.

Mr. President, I hope that the amendment offered by the Senator from Wisconsin will not prevail, because in my firm judgment, if it should prevail many of the smaller corporations of the country would be forced out of business.

Mr. LA FOLLETTE. Mr. President, I ask unanimous consent to file my individual views from the Committee on Finance concerning House bill 7378 (Pt. 2 of Rept. No. 1631).

The PRESIDING OFFICER. Without objection, it is so ordered and the views will be printed.

Mr. LA FOLLETTE. I also ask unanimous consent to have printed in the RECORD at the conclusion of my remarks the table from which I have read in discussing this amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit A.)

Mr. LA FOLLETTE. Mr. President, I wish to say a few words before the vote is taken.

This is not a question of punitive taxation. I venture to say that if this country were not in the dire fiscal situation which now confronts it no Senator would support the rates which are provided in the bill for individuals, corporations, and estates. The only reason we are driven to this situation is the astronomical character of the expenditures which we are forced to make. Therefore, each Senator must exercise his own judgment as to how far we can go in the taxation of all sources of revenue; for when we have gone as far as we dare go, we shall be far short of the absolutely essential revenue in order that the Government may carry on the war expenditures which have already been authorized and contracted for.

Mr. President, I have no desire to hurt corporations. I realize their importance in our economy. No Senator is more anxious than I to preserve the free enterprise system. However, I say that if we fail in our duty to levy taxes, the free-enterprise system will be doomed. We must have the courage to tax and tax and tax; for the only other alternative is to shove bonds down the throats of the Federal Reserve banks and start the printing presses. When we do that, Mr. President, our corporate structure is gone; our democracy is gone; and everything for which we are fighting is finished.



This is not an issue involving the question whether we are for or against corporations. As I said before, I recognize their importance in our economy. However, at this time we must tax up to the point where our judgment says we may go, and no further.

My proposal is less than the Treasury recommended. In effect, it is no more than the House of Representatives has proposed. Does anyone think that the able committee in the House or the majority in the House of Representatives is out to destroy the free enterprise system by excessive taxation upon corporations? I say that anyone who takes such a position does not know the members of that committee or the Members of the House of Representatives.

As I previously stated, this is a question of judgment. The proposal which I have offered would in effect impose no

greater tax upon corporations than would the proposal contained in the House bill.

Let it be said that in considering the total burden to be imposed upon corporations we have provided for repeal of the so-called capital-stock tax, that guessing game in which corporations have had to indulge.

They would thereby be relieved of \$290,000,000 of taxes. In consideration of that, Mr. President, I think that the corporations of the country would welcome an increase in their normal taxes and surtaxes.

As a matter of fact, a poll taken by the Industrial Conference Board showed that corporations were willing to have their rates increased as much as 2½ percent in order to get rid of the excess-profits capital-stock tax.

It should also be borne in mind that the pending bill provides liberal relief provi-

sions, which I support because I think we must try to make the tax structure equitable. In section 722 the bill goes a long way in extending relief to corporations—relief which, I say, is justified, but which nevertheless will result in their paying less taxes than they otherwise would pay.

So, Mr. President, as I said before, it comes to a question of judgment. In reaching the conclusion that the amendment should be agreed to I have been motivated only by a desire to serve the best interests of our common government in time of war, and I am not indulging, as the Senator from Georgia suggested, in any political maneuver or any effort to adorn the bill with political ornaments. I think my record here for nearly 17 years denies any such charge better than I can do by any form of words.

#### EXHIBIT A CORPORATION TAXES

*Estimated revenue effect, at levels of income estimated for calendar year 1942, of alternative proposals of Senator La Follette revising corporation income and excess-profits taxes, compared with revenue effect of H. R. 7378 as reported by the Senate Finance Committee, Oct. 2, 1942, and as passed by the House of Representatives, July 20, 1942*

[In millions of dollars]

	Increase or decrease (—) over yield of present law				Increase or decrease (—) La Follette proposal A over yield of—		Increase or decrease (—) La Follette proposal B over yield of—		Increase or de- crease (—) proposal A over proposal B
	La Follette proposal—		H. R. 7378—		H. R. 7378 as reported by Senate Finance Committee		H. R. 7378 as reported by House of Repre- sentatives		
	A <sup>1</sup>	B <sup>1</sup>	As reported by Senate Finance Com- mittee	As passed by House of Repre- sentatives	H. R. 7378 as reported by Senate Finance Committee	H. R. 7378 as passed by House of Repre- sentatives	H. R. 7378 as reported by Senate Finance Committee	H. R. 7378 as passed by House of Repre- sentatives	
Corporation taxes:									
Income and excess-profits taxes:									
Income tax	893.2	994.4	45.1	383.4	848.1	509.8	949.3	611.0	-101.2
Excess-profits tax	2,095.0	1,919.7	2,116.4	2,315.8	-21.4	-220.8	-196.7	-396.1	175.3
Declared value excess profits tax	-107.5	-107.5	-107.5	-58.5	49.0	49.0		49.0	
Total income and excess profits taxes (gross)	2,880.7	2,806.6	2,054.0	2,640.7	826.7	240.0	752.6	165.9	74.1
Post-war credit:									
Debt retirement credit	-385.0	-385.0	-300.0		-85.0	-385.0	-85.0	-385.0	
Net post-war refund	-667.8	-660.4	-271.5		-396.3	-667.8	-388.9	-660.4	-7.4
Total post-war credit	-1,052.8	-1,045.4	-571.5		-481.3	-1,052.8	-473.9	-1,045.4	-7.4
Total income and excess-profits taxes (net)	1,827.9	1,761.2	1,482.5	2,640.7	345.4	-812.8	278.7	-879.5	66.7
Capital stock tax	-290.0	-290.0	-290.0	-51.5		-238.5		-238.5	
Total corporation taxes	1,537.9	1,471.2	1,192.5	2,589.2	345.4	-1,051.3	278.7	-1,118.0	66.7
Decrease in individual income tax <sup>1</sup>	-476.0	-460.0	-350.0	-621.0	-126.0	145.0	-110.0	161.0	-16.0
Net revenue effect	1,061.9	1,011.2	842.5	1,968.2	219.4	-906.3	168.7	-957.0	50.7

<sup>1</sup> (A) Income and excess-profits tax base same as reported by Senate Finance Committee; (B) increase maximum surtax rate to 26 percent; (C) allow post-war credit equal to 10 percent of total income and excess-profits taxes.

<sup>2</sup> (A) Allow specific credit of \$10,000 for excess-profits tax; (B) increase maximum surtax rate to 26 percent; (C) allow post-war credit equal to 10 percent of total income and excess-profits taxes.

<sup>3</sup> At rates and exemptions (including net Victory tax) as reported by Senate Finance Committee.

Treasury Department, Division of Research and Statistics, Oct. 6, 1942.

Mr. LA FOLLETTE. I ask for the yeas and nays on my amendment.

The yeas and nays were not ordered.

Mr. LA FOLLETTE. Mr. President, I ask that I may be given the courtesy of a record vote.

Mr. BARKLEY. Mr. President, I hope Senators will give the Senator from Wisconsin a ye-a-and-nay vote on the amendment.

The yeas and nays were ordered.

Mr. GEORGE. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. GEORGE. Is the question on agreeing to the amendment of the Senator from Wisconsin?

The PRESIDING OFFICER. The question is on the amendment of the

Senator from Wisconsin, and on that question the yeas and nays have been demanded and ordered. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. THOMAS of Utah (when his name was called). I have a general pair with the senior Senator from New Hampshire [Mr. BRIDGES]. I transfer that pair to the senior Senator from Delaware [Mr. HUGHES] and will vote. I vote "nay."

The roll call was concluded.

Mr. BYRD. The senior Senator from Virginia [Mr. GLASS] is detained from the Chamber by illness. If present, he would vote "nay."

Mr. HILL. I announce that the Senator from Delaware [Mr. HUGHES] is

absent from the Senate because of illness.

The Senator from Florida [Mr. ANDREWS], the Senator from Idaho [Mr. CLARK], the Senator from New York [Mr. MEAD], and the Senator from Washington [Mr. WALLGREN] are detained on official business.

The Senator from Georgia [Mr. RUSSELL] is necessarily absent.

Mr. McNARY. I announce that the Senator from Vermont [Mr. AUSTIN] and the Senators from New Hampshire [Mr. BRIDGES and Mr. TOBEY] are necessarily absent.

The Senator from Kansas [Mr. REED] and the Senator from Minnesota [Mr. SHIPSTEAD] are unavoidably detained. If the Senator from Minnesota [Mr. SHIPSTEAD] were present, he would vote "yea."

The result was announced—yeas 9, nays 75, as follows:

YEAS—9		
Bone	La Follette	Pepper
Downey	Langer	Smathers
Hill	Lee	Wheeler
NAYS—75		
Alken	George	Nye
Bailey	Gerry	O'Daniel
Ball	Gillette	O'Mahoney
Bankhead	Green	Overton
Barbour	Guffey	Radcliffe
Barkley	Gurney	Reynolds
Bilbo	Hatch	Rosier
Brewster	Hayden	Schwartz
Brooks	Herring	Smith
Brown	Holman	Spencer
Bulow	Johnson, Calif.	Stewart
Bunker	Johnson, Colo.	Taft
Burton	Kilgore	Thomas, Idaho
Butler	Lodge	Thomas, Okla.
Byrd	Lucas	Thomas, Utah
Capper	McCarran	Truman
Caraway	McFarland	Tunnell
Chandler	McKellar	Tydings
Chavez	McNary	Vandenberg
Clark, Mo.	Maloney	Van Nuys
Connally	Maybank	Wagner
Danaher	Millikin	Walsh
Davis	Murdock	White
Doxey	Murray	Wiley
Ellender	Norris	Willis
NOT VOTING—12		
Andrews	Glass	Russell
Austin	Hughes	Shipstead
Bridges	Mead	Tobey
Clark, Idaho	Reed	Wallgren

So Mr. LA FOLLETTE's amendment was rejected.

The PRESIDING OFFICER. The question recurs on the committee amendment to be found on page 17, line 6, to strike out "32" and insert "22."

Mr. McCARRAN rose.

The PRESIDING OFFICER. The Senator from Nevada is recognized.

Mr. McCARRAN. Mr. President, while this motion is pending I do not care to be heard on it, but on another item that comes up I desire to be heard.

The PRESIDING OFFICER. The question is on the committee amendment on page 17, line 6.

Mr. LA FOLLETTE. I ask for the yeas and nays on the amendment.

The yeas and nays were not ordered.

Mr. LA FOLLETTE. I ask for a division.

On a division, the amendment was agreed to.

The PRESIDING OFFICER. The question now recurs on the committee amendment to be found on page 17, lines 9 and 10, to strike out "21" and insert "16."

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next committee amendment.

The CHIEF CLERK. On page 31—

Mr. GEORGE. Mr. President, the amendment is one that will occasion some debate, probably considerable debate. I should like to have action with reference to one or two other amendments which were carried over before we take up the one on page 31.

The third amendment reserved or carried over is on pages 84 and 85, according to my information, relating to interest on single-premium life insurance. The Senator from Michigan asked that that be carried over.

Mr. VANDENBERG. Mr. President, the Senator is correct; I asked that it go

over yesterday because it seemed to me that the amendment did not reflect the decision made by the Finance Committee. It is impossible, however, to work out a correction at the moment on the floor, and I am quite willing to have the matter surveyed in conference because I know the able Senator from Georgia entirely shares my view affecting this matter. Am I correct?

Mr. GEORGE. The Senator is correct. I have identically the same view. I have examined the amendment, and I find that the whole provision is in conference, so that the conferees will be free to make any correction if there is any error in the text as approved.

Mr. VANDENBERG. Under those circumstances, I have no further objection to action on the amendment.

The PRESIDING OFFICER. The amendment will be stated.

The CHIEF CLERK. On page 84, line 18, after the word "semicolon", it is proposed to strike out "and the word 'or' at the end of paragraph (5)", and on page 84, after line 20, to strike out:

(6) Any amount paid or accrued on indebtedness incurred or continued to purchase or carry a single premium or fully paid-up life insurance or endowment contract; or

And in lieu thereof to insert:

(6) Any amount paid or accrued on indebtedness incurred or continued to purchase a single premium life insurance or endowment contract. For the purposes of this paragraph, if substantially all the premiums on a life insurance or endowment contract are paid within a period of 4 years from the date on which such contract is purchased, such contract shall be considered a single premium life insurance or endowment contract; or.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment passed over.

The CHIEF CLERK. On page 87, line 20—

Mr. GEORGE. Mr. President, that amendment might occasion debate. I do not know who asked that it go over.

The PRESIDING OFFICER. The Chair is informed that the Senator from Virginia [Mr. BYRD] asked that it go over. Does the Senator from Virginia desire to be heard on the amendment?

Mr. BYRD. I ask that it go over. I am under the impression that it is a part of the amendment of the Senator from Wisconsin [Mr. LA FOLLETTE], is it not? I was told by the clerk of the committee, sitting next to me, when I was acting in the temporary absence of the Senator from Georgia, that it was a part of the amendment of the Senator from Wisconsin.

Mr. LA FOLLETTE. Mr. President, I feel there is some confusion about it. I did not ask that the amendment go over.

Mr. GEORGE. I thought if we might dispose of it before taking up another one, it would be well.

The PRESIDING OFFICER. The question is on the committee amendment on page 87, which will be stated.

The CHIEF CLERK. On page 87, after line 20, it is proposed to insert:

(b) Credit for dependents: Section 25 (b) (2) (A) (relating to credit for dependents) is amended by striking out "\$400" and inserting in lieu thereof "\$300."

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment.

Mr. GEORGE. Mr. President, I think we should recur to the second amendment which went over which is the amendment on page 31 relating to the taxation of State and municipal securities.

The PRESIDING OFFICER. The amendment will be stated.

The CHIEF CLERK. At the top of page 31 it is proposed to strike out:

Sec. 111. Amendments to conform Internal Revenue Code with the Public Debt Act of 1941.

(a) Postal savings certificates: Section 22 (b) (4) (relating to the exclusion of tax-free interest from gross income) is amended by inserting after the words "other than postal savings certificates of deposits" the following: "to the extent they represent deposits made before March 1, 1941."

(b) United States obligations: Section 25 (a) (1) is amended to read as follows:

"(1) Interest on United States obligations: The amount received as interest upon obligations of the United States, if such interest is included in gross income under section 22, and if, under the act authorizing the issue of such obligations, as amended and supplemented, such interest is exempt from normal tax."

(c) The amendments made by this section shall be effective as of March 1, 1941.

And insert:

Sec. 112. Exemption of interest on public obligations.

(a) Section 22 (b) (4) (relating to exclusion from gross income of tax-free interest) is amended to read as follows:

"(4) Tax-free interest: To the extent provided in section 116 (b), interest upon obligations issued by (A) the United States, or any agency or instrumentality thereof; or (B) a State, Territory, or possession of the United States, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing. Every person owning any of the obligations enumerated in clause (A) or (B) shall, in the return required by this chapter, submit a statement showing the number and amount of such obligations owned by him and the income received therefrom, in such form and with such information as the Commissioner may require."

(b) (1) Sections 25 (a) (1) and (2) (relating to credits of individual for normal tax) are amended to read as follows:

"(1) Interest on United States obligations: The amount received as interest upon an obligation of the United States, if such interest is included in gross income under section 22 and if, under the act authorizing the issue of such obligation, as amended and supplemented, such interest is exempt from normal tax."

"(2) Interest on obligations of agencies or instrumentalities of the United States: The amount received as interest upon an obligation of an agency or instrumentality of the United States, if such interest is included in gross income under section 22 and if, under the act authorizing the issue of such obligation, as amended and supplemented, such interest is exempt from normal tax."

(2) Section 26 (a) (relating to credit of corporations for interest on obligations of the



United States and its instrumentalities) is amended to read as follows:

"(a) Interest on obligations of the United States: The amount received as interest upon obligations of the United States, or of any agency or instrumentality thereof, which is allowed to an individual as a credit for purposes of normal tax by section 25 (a) (1) or (2)."

(3) The amendments made by this subsection shall be effective as of March 1, 1941.

(c) Section 116 (relating to exclusions from gross income) is amended by inserting after subsection (a) a new subsection to read as follows:

"(b) Tax-free interest.—

"(1) Interest upon obligations issued (A) before March 1, 1941, by the United States, or any agency or instrumentality thereof, to the extent it is wholly exempt from the taxes imposed by this chapter under the acts authorizing the issuance of such obligations, as amended and supplemented, including interest upon postal savings certificates of deposit made prior to March 1, 1941; or (B) before January 1, 1943, by a State, Territory, or possession of the United States or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing: *Provided, however,* That this subsection shall not be considered to exempt from taxation interest includible in gross income for any taxable year beginning before January 1, 1942, under the Internal Revenue Code, or any prior revenue act.

"(2) For the purposes of this subsection:

"(A) An obligation shall be considered to have been issued after a particular date, if any part of the payment therefor is received by the obligor after such date, or if delivery thereof is made by the obligor after such date.

"(B) Obligations which merely replace lost, mutilated, defaced, or destroyed obligations, or obligations of larger or smaller denominations, and obligations in registered form or with coupons which merely replace obligations with coupons or in registered form, shall be treated as if they were the obligations replaced.

"(3) For the purposes of clause (B) of paragraph (1) of this subsection:

"(A) If the terms of an obligation issued before January 1, 1943, the maturity of which on the date of enactment of the Revenue Act of 1942 (hereinafter called 'enactment date') or the date of issue, whichever is later, is later than December 31, 1942, are, after enactment date, changed so as to increase the principal amount or interest rate or to extend the maturity, then such obligation shall (as to interest accruing for any period after the date of the change or December 31, 1942, whichever is later) be considered as issued after such later date.

"(B) In the case of an obligation issued after the enactment date and before January 1, 1943, such obligation shall (as to interest accruing for any period after December 31, 1942) be considered as issued after December 31, 1942, if any part of the proceeds of the issue of which the obligation is a part, or if any obligation of the issue, is devoted to the retirement or refunding of an obligation the maturity of which on enactment date was later than June 30, 1943. For the purposes of this subparagraph, June 30, 1943, shall be considered the maturity, on enactment date, of an obligation the interest on which ceases to run before July 1, 1943, by reason of such obligation being called for redemption in accordance with the terms thereof as they existed on enactment date.

"(4) For the purposes of clause (B) of paragraph (1) of this subsection, if an obligation is issued after December 31, 1942 (hereinafter called 'refunding obligation'), and if—

"(A) The issue of which it is a part (hereinafter called 'new issue') is issued for the purpose of refunding one or more obligations (hereinafter called 'refunded obligations'); and

"(B) All refunded obligations have the same exemption expiration date, as defined in subparagraph (J); and

"(C) No obligations, other than those of the new issue, have been issued for the purpose of refunding any of the refunded obligations; and

"(D) The aggregate principal amount of the new issue is not in excess of the aggregate principal amount of the refunded obligations; and

"(E) Interest on each of the refunded obligations ceases (by reason of such obligation being called for redemption in accordance with the terms thereof as they existed on enactment date, or the date of issue, whichever is later) to run upon a date not more than 7 months after the date upon which interest on the refunding obligation begins to run; and

"(F) Interest on each of the refunded obligations, for the period at the end of which it ceases to run by reason of such call for redemption, is considered as interest on an obligation issued before January 1, 1943; and

"(G) The refunding obligation, in its terms, states the exemption expiration date of, and identifies, the refunded obligations; and

"(H) The interest rate on the refunding obligations for any period ending on or before the exemption expiration date of the refunded obligations is not higher than the interest rate which any of the refunded obligations had, or would (if such obligation had not been called for redemption) have had, for the corresponding period. Then the refunding obligation shall be considered as issued before January 1, 1943, as to so much of the interest as accrues for any period ending before or on the exemption expiration date of the refunded obligations, and shall be considered as issued after December 31, 1942, as to the remainder of such interest. For the purposes of this paragraph—

"(I) Several obligations shall be considered as one issue, only if each is identical with all the others in maturity, interest rate, terms and conditions, and recitals, but the fact that the denominations differ, or that some are registered and some in coupon form shall be disregarded.

"(J) 'Exemption expiration date' means—

"(i) With respect to a refunded obligation issued before January 1, 1943, the date of maturity which the obligation had on December 31, 1942;

"(ii) With respect to a refunded obligation issued after December 31, 1942, the date as of which interest thereon would (if the obligation had not been called for redemption) have ceased to be considered as interest on an obligation issued before January 1, 1943."

Mr. McCARRAN. Mr. President, I call up an amendment which I have sent to the desk. I am inclined to believe that this matter will be quite promptly disposed of in view of a letter which I received from the chairman of the Committee on Finance. I ask that the amendment be read.

The PRESIDING OFFICER. The amendment will be stated.

The CHIEF CLERK. On page 34, line 9, it is proposed to strike out the period, insert a colon and the following: "Provided further, That this subsection shall not apply to issues of bonds, debentures, securities or other obligations by a State, or any political subdivision thereof, where such obligations are held by the

State, or any duly constituted agency thereof operating solely within such State in the performance of its official duties, as security or investment."

Mr. McCARRAN. Mr. President, I desire to modify the amendment by adding after the word "agency", in line 6, the words "commission, or instrumentality."

The PRESIDING OFFICER. The amendment is in control of the Senator from Nevada. He has a right to modify his amendment.

Mr. McCARRAN. I so modify it.

The VICE PRESIDENT. The question is on the amendment offered by the Senator from Nevada, as modified.

Mr. GEORGE. Mr. President, I do not think the amendment is needed. Under the amendment included in the bill by the Senate Finance Committee I am sure that the interest on bonds held by a State in its treasury, such as described, the amendment would not be taxable. From that point of view, I fully agree that there is no objection to the amendment.

There is, however, a question in my mind. By exempting certain securities held in a State treasury there might be an inference that other securities which are likewise exempt or would be exempt if the Senate Finance Committee amendment becomes the law would be subject to the tax. In other words, by excluding certain bonds and securities, there might be an inference that certain others which I do not think are subject to this tax if approved by the Congress finally, would be subject to it by excluding some without excluding all.

It is rather difficult to exclude all. It seems to me there might be an inference that some of the others might be subject to the tax. I have discussed the matter with the Senator from Ohio, who is interested in it, and with some of the other Members of the Senate. Now the Senator from Nevada has broadened his amendment somewhat, and it may take care of the situation.

Mr. McCARRAN. That was my view.

Mr. GEORGE. Is that the Senator's purpose?

Mr. McCARRAN. That is my purpose in broadening the amendment.

Mr. TAFT. Mr. President, my difficulty is that I do not think anybody maintains that we can possibly tax a State. I do not see why we should deny that we are trying to tax a State. The question in connection with municipal bonds is that you are taxing an individual's income and the mere fact that it comes from the State should not exclude it from being considered as his income; but now nobody is maintaining that we should tax a State on bonds it holds itself.

My difficulty is that we have in Ohio a teachers' retirement fund and a workmen's compensation fund. Whether they are covered by the exact words as originally written in the bill I do not know, but it is also true that we are not taxing municipal bonds in the hands of any charitable organization. It is not proposed to tax municipal bonds in the hands of anyone who is exempt under the Internal Revenue Code. If we are to

exclude States and their agencies, we should go on and list all the exempt institutions which are now exempt from the Federal income tax.

It seems to me that by saying we are not taxing States and agencies of States it is implied that we are taxing somebody else who should not be subject to tax. I have had letter after letter from teachers in Ohio with regard to the possibility of taxing the teachers' retirement fund. I do not know whether the teachers' retirement fund is an agency of the State, or could be said to fall within the definition of the proposed act. I know it is not subject to tax under the Federal income-tax law, and that is all I want to know about it. I do not like to exclude someone and thereby imply that perhaps we are taxing others who should also be exempt.

Mr. GEORGE. Mr. President, the income tax applies only to incomes realized and enjoyed by persons, natural or artificial. A State is not a person in that sense at all, I may say to the Senator from Nevada, and therefore the amendment proceeds on the assumption, by inference, at least, that a State may be subject to a tax. A State is not subject to a tax and cannot be subject to a tax. I think it would be better not to press the amendment, because it certainly is unnecessary in the bill before us and might, for that reason, perhaps, with respect to some securities issued by some political subdivision of a State, raise an implication that they are subject to taxation.

Mr. McCARRAN. Mr. President, the colloquy which has taken place is exactly what I sought to bring about in order to secure clarification. In other words, I sought to have written into the bill the understanding and the policy which was to be expressed by the Senate with reference to the language contained in the bill. The colloquy which has occurred has served the exact purpose I had in mind. I am offering the amendment, and I ask that it be printed, but I shall not press it further, in view of the understanding had.

The PRESIDING OFFICER. The RECORD may show that the Senator withdraws his amendment.

Mr. McCARRAN. I ask that it be printed in the RECORD at this point.

The PRESIDING OFFICER (Mr. McFARLAND in the chair). Without objection, it is so ordered.

The amendment is as follows:

On page 34, line 9, strike out the period, insert a colon and the following: "Provided further, That this subsection shall not apply to issues of bonds, debentures, securities, or other obligations by a State, or any political subdivision thereof, where such obligations are held by the State, or any duly constituted agency, commission, or instrumentality thereof operating solely within such State in the performance of its official duties, as security or investment."

The PRESIDING OFFICER. The question is on agreeing to the amendment of the committee on page 31.

Mr. HAYDEN. Mr. President, I desire to speak briefly in opposition to the adoption of the committee amendment. I preface my remarks by asking to have included in the RECORD a concurrent me-

morial passed by the legislature of my State in May of this year opposing putting into the pending bill a provision that the income from State and municipal securities be taxed.

The PRESIDING OFFICER. Is there objection?

There being no objection, the memorial was ordered to be printed in the RECORD, as follows:

#### House Concurrent Memorial 1

A concurrent memorial objecting to legislation by Congress for the taxing of municipal bonds

To the Congress of the United States:

Your memorialist respectfully represents:

According to advices concerning the proceedings of the Congress, the deliberations of its committees, and the expressions of certain Members, consideration is being given to the imposition of a tax on the bonds of local governmental units or municipalities.

Adoption of this proposal would place upon most local units if not all of them, and particularly upon cities and towns, a most serious burden, without compensating advantages.

The financial structures of many cities and towns are already laboring under serious stresses, which would be brought to the breaking point by the adoption of the proposed policy.

The imposition of a tax on municipal bonds, it would seem unnecessary to point out, would greatly impair the market for such securities, making financing difficult, and in many cases impracticable. When sold securities would be sold at great sacrifice, and thus load upon the taxpayers an additional burden. Receipts from the sale of securities being reduced, the cost of essential improvements or installations would mount. The financial problems of many cities and towns would become insurmountable, and bankruptcy might very easily result.

Furthermore, the infliction of a tax upon municipal bonds would amount to an extension or expansion of the power of Congress to tax far beyond the thoughts or dreams of the makers of the Constitution, and afford an all-time demonstration of the literal accuracy of the adage that the power to tax is the power to destroy. Wherefore your memorialist, the House of Representatives of the State of Arizona, the Senate concurring, earnestly prays:

1. That the Congress of the United States turn a deaf ear to any and all proposals looking to the imposition of a tax on municipal bonds and securities.

Passed the house, April 23, 1942.

Passed the senate, April 25, 1942.

Approved by the Governor, May 4, 1942.

The PRESIDING OFFICER. The memorial will lie on the table.

Mr. HAYDEN. Mr. President, nearly 20 years ago this very question was pending in the House of Representatives, and at that time I had occasion to address the House on the subject. I wish to read to the Senate just one paragraph from what I said on January 23, 1923, because I think it states the substance of the argument. I then said:

I fully appreciate the desire of the great majority of our citizens that the owners of no form of wealth shall escape taxation. It was this same desire that induced many States to impose a tax on mortgages. The result was a positive injury to the borrowers, because since no one is compelled to make a loan the interest rate was raised to offset the tax. The owner of a mortgage does not pay the tax, and neither will the owner of any taxable security issued by the United States or by authority of any State. The tax will be

passed on to the borrower, either through the purchase of the security below par or by increasing the rate of interest. In other words, those who have money to loan will always find a way to obtain a net return for its use which equals the current rate of interest, and no law ever passed has effectively changed this fundamental economic fact.

Mr. President, it is inconceivable to me that we can make taxable a security issued by a State, a municipality, or the Federal Government, without inevitably occasioning an increase in the rate of interest which the State or the municipality or the Federal Government must pay. So in the long run nothing is gained by such a provision. For that reason I am opposed to the adoption of the amendment.

I understand that there are other provisions in the bill, in addition to the particular one now under consideration, which would have to be corrected, but that the main issue can be determined by the rejection of the committee amendment now pending.

Mr. BURTON. Mr. President, I concur in what the Senator from Arizona has just said, but I believe that in order to reach that issue, if we wish to defeat the committee amendment insofar as it relates to future issues of securities by States and municipalities, we should adopt an amendment in the form of that which I have placed on the desk at the recommendation of the legislative counsel. This amendment will come on page 34, line 1, to strike out the provision "before January 1, 1943," so that the section would then exempt income from State and municipal securities without that limitation. My amendment would further strike out beginning on line 23, page 34, all the language down to and including line 16, on page 38. This is the provision to exempt certain refunding issues, which would not be necessary if the other step is taken exempting all issues.

The reason for adopting this procedure is simply that there is some language in the first part of section 112 which should probably remain in it in order to take care of the changed situation which has arisen as to taxation of Federal securities. I believe my amendment directly raises the issue that we wish to raise without omitting noncontroversial matters. If my amendment to the proposed committee amendment shall be adopted, it will mean that securities issued at any time hereafter or heretofore are still exempt. That, I believe, is the contention of the Senator from Arizona. I therefore offer my amendment, which is on the desk, and ask that it be stated.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. It is proposed on page 34, line 1, to strike out "before January 1, 1943", and to strike out, beginning with line 23, page 34, the following:

(3) For the purposes of clause (B) of paragraph (1) of this subsection:

(A) If the terms of an obligation issued before January 1, 1943, the maturity of which on the date of enactment of the Revenue Act of 1942 (hereinafter called enactment date) or the date of issue, whichever is later, is later than December 31, 1942, are, after enactment date, changed so as to increase the principal amount or interest rate or to extend the maturity, then such obligation shall (as to in-



terest accruing for any period after the date of the change or December 31, 1942, whichever is later) be considered as issued after such later date.

(E) In the case of an obligation issued after the enactment date and before January 1, 1943, such obligation shall (as to interest accruing for any period after December 31, 1942) be considered as issued after December 31, 1942, if any part of the proceeds of the issue of which the obligation is a part, or if any obligation of the issue, is devoted to the retirement or refunding of an obligation the maturity of which on enactment date was later than June 30, 1943. For the purposes of this subparagraph, June 30, 1943, shall be considered the maturity, on enactment date, of an obligation the interest on which ceases to run before July 1, 1943, by reason of such obligation being called for redemption in accordance with the terms thereof as they existed on enactment date.

(4) For the purposes of clause (B) of paragraph (1) of this subsection, if an obligation is issued after December 31, 1942 (hereinafter called refunding obligation), and if—

(A) The issue of which it is a part (hereinafter called new issue) is issued for the purpose of refunding one or more obligations (hereinafter called refunded obligations); and

(B) All refunded obligations have the same exemption expiration date, as defined in subparagraph (J); and

(C) No obligations, other than those of the new issue, have been issued for the purpose of refunding any of the refunded obligations; and

(D) The aggregate principal amount of the new issue is not in excess of the aggregate principal amount of the refunded obligations; and

(E) Interest on each of the refunded obligations ceases (by reason of such obligation being called for redemption in accordance with the terms thereof as they existed on enactment date, or the date of issue, whichever is later) to run upon a date not more than 7 months after the date upon which interest on the refunding obligation begins to run; and

(F) Interest on each of the refunded obligations, for the period at the end of which it ceases to run by reason of such call for redemption, is considered as interest on an obligation issued before January 1, 1943; and

(G) The refunding obligation, in its terms, states the exemption expiration date of, and identifies, the refunded obligations; and

(H) The interest rate on the refunding obligations for any period ending on or before the exemption expiration date of the refunded obligations is not higher than the interest rate which any of the refunded obligations had, or would (if such obligation had not been called for redemption) have had, for the corresponding period,

then the refunding obligations shall be considered as issued before January 1, 1943, as to so much of the interest as accrues for any period ending before or on the exemption expiration date of the refunded obligations, and shall be considered as issued after December 31, 1942, as to the remainder of such interest. For the purposes of this paragraph—

(I) Several obligations shall be considered as one issue, only if each is identical with all the others in maturity, interest rate, terms and conditions, and recitals, but the fact that the denominations differ, or that some are registered and some in coupon form shall be disregarded.

(J) "Exemption expiration date" means—

(i) With respect to a refunded obligation issued before January 1, 1943, the date of maturity which the obligation had on December 31, 1942;

(ii) With respect to a refunded obligation issued after December 31, 1942, the date as of

which interest thereon would (if the obligation had not been called for redemption) have ceased to be considered as interest on an obligation issued before January 1, 1943.

Mr. BURTON. Mr. President, I believe the outstanding feature of the committee amendment as proposed to the Senate is that it would produce substantially no income to the Federal Government. It levies no tax whatever on outstanding municipal and State securities. I believe that it should not levy a tax on them, but as it stands it brings out clearly the fact that no present benefit will inure to the Federal Government in the way of income by the adoption of the committee amendment. That is important today, because what we are primarily seeking to do in this tax bill is to raise money for the Federal Government. This proposal of the committee would not do it. If we tax the income only from future issues of State and municipal bonds—it was developed in the hearings that it might amount to a return to the Federal Government of only from \$3,000,000 to \$5,000,000 a year for the next few years—it probably would not amount to anything really substantial for 10 years. It will take about 20 or 30 years before there will again build up issues of State and municipal securities corresponding substantially to the amounts now outstanding. Therefore, as a war measure, it does not at all serve the Federal Government, yet it carries with it every bit of the detriment to the States and municipalities that has been involved in preceding amendments of this kind that have been presented to and voted down in the Congress.

Mr. THOMAS of Oklahoma. Will the Senator yield?

Mr. BURTON. I yield.

Mr. THOMAS of Oklahoma. Is it not a fact that if this amendment shall be adopted and become a part of the pending measure, it will have the effect of causing the value of existing outstanding bonds to appreciate, and will cause the new issues to become depreciated as they are issued?

Mr. BURTON. I think you could say that, for I believe the committee amendment would operate in this way: Those now holding tax-exempt securities would find that there was an extra premium on their securities, because there would be no few of them, and there could be no more of them. Therefore, if anything, that would unjustly enrich them further than is now being done, if it can be regarded as unjust enrichment.

On the other hand, for the future issues of our States and municipalities, it would mean that the States and municipalities would be forced to add additional sums to their future interest rates to meet the market at that time, that market undoubtedly would require higher interest payments to cover the income taxes that holders of the new bonds would be forced to pay. The proposal, therefore, would carry the full detriment of higher interest rates payable by the municipalities and the States without giving the Federal Government any immediate benefit to make up for this.

This effort to tax income from State and municipal securities has been made

in the past, because there were some who did not want the bondholders to escape Federal taxes on that income. Let me point out that the proposed committee amendment would not cure the defect at all as to outstanding bonds, and let me also point out that those bondholders now in possession of tax-exempt bonds are already paying something to the States and cities from which they bought them, in lieu of income taxes on them. This is because the holders either bought the bonds at a premium which they regarded equivalent to the income exemptions, or they are receiving a lower rate of interest on the bonds in recognition of the fact of the tax exemption.

Therefore, those who are now holding these bonds are already paying, by virtue of their original purchase price or of the low income which they receive from the bonds, what is the rough equivalent to a tax in favor of the municipalities and States which issued the bonds. They do not, in fact, therefore, really get the net advantage that they generally are supposed to get when it is said that they are escaping taxation.

Mr. President, I have been impressed by the fact that this question has been argued many times. I have also been impressed by the conclusions reached, and I wish, first of all, to cite briefly certain authorities on this very point from the Congress, from the Supreme Court, and from civic organizations.

Since 1913 the Congress each year has in effect passed upon this question, because in each revenue act it has expressly excluded these issues from taxation. This has been done repeatedly and should clearly represent the considered views of the Congress.

In 1918 and 1924 the provision was voted down on the floor of the House. In each of the last 4 years the House Committee on Ways and Means has refused to report it favorably, although extensive hearings were held in 1939 and again in 1942. As recently as September 19, 1940, the Senate voted down the proposal 44 to 30, and many of those 44 Senators are Members of this body today.

From the point of view of constitutionality, there have been interesting and extended arguments to the effect that it is not constitutional for the Federal Government to tax the income received from State and municipal securities. I believe it is not constitutional. I believe the measure now before us for consideration is not constitutional. The argument advanced by those supporting the constitutionality of this measure goes to great lengths. I wish merely to point to the fact that a decision of the Supreme Court clearly holds this to be unconstitutional, and that decision has not been overruled or modified in this particular. The committee, therefore, is asking us to act in direct conflict with the Supreme Court of the United States on the assumption that we can get the Supreme Court to reverse itself.

On this point I cite the *Pollock* cases, decided in 1895 (157 U. S. 429 and 158 U. S. 601).

In those cases the court, although divided upon other points, unanimously

denied the Federal power to tax local obligations. That ruling still stands.

There have come before the Supreme Court new laws which tax the salaries of employees of cities and States or which tax the contractor's receipts from a city or a State. The decisions which have upheld those laws have in each case distinguished such taxes from the tax in question. The reason why the Court distinguishes them was well pointed out by the then Solicitor General Robert H. Jackson, now on the Supreme Court. He is reported to have explained in his argument to the court the difference between the taxation of public salaries and interest on Government securities. He explained it was apparent that when a tax deals with a debtor and creditor relationship it is the borrower who is burdened, which distinguishes it from the case of a tax which deals with the salary of the employee. When you tax a borrower and creditor relation, the next time the borrower offers his securities to the public his cost is increased. He is dealing with an open market. It is now regarded, and it was so regarded in the early cases, that the Federal Government cannot directly or otherwise tax a State or a municipality. That is recognized as law, and when you tax the income from a State's or city's own obligation you are doing that very thing. That is the point of the Pollock cases, which expressly passed on the issue in 1895.

Mr. MAYBANK. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. MAYBANK. I agree thoroughly with what the Senator from Ohio has just said, and I wish to express the hope that the committee amendment will be defeated.

Mr. President, having served as Governor of South Carolina I know the evil result which would follow if the Federal Government should undertake to place a tax on State and municipal bonds. I may say that I have seen the interest rate reduced from 6 percent to 1½ percent by reason of the fact that certain bond issues were not taxable. Reduction in interest rates on municipal bonds has followed reduction in rates on State bonds in the South for the same reason. We have been able to improve our State, and many of its cities and school districts through our bond issues. No taxes can be raised to help the war effort by reason of the adoption of the committee amendment. Therefore I am opposed to it.

Mr. WILLIS. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Burton	Ellender
Austin	Butler	George
Bailey	Eyrd	Gerry
Ball	Capper	Gillette
Bankhead	Caraway	Green
Barbour	Chandler	Guffey
Barkley	Chavez	Gurney
Billo	Clark, Idaho	Hatch
Bone	Clark, Mo.	Hayden
Brewster	Connally	Herring
Brooks	Danaher	Hill
Brown	Davis	Holman
Bulow	Downey	Johnson, Calif.
Bunker	Doxey	Johnson, Colo.

Kilgore	Nye	Thomas, Idaho
La Follette	O'Daniel	Thomas, Okla.
Langer	O'Mahoney	Thomas, Utah
Lee	Overton	Truman
Lodge	Pepper	Tunnell
Lucas	Radcliffe	Tydings
McCarran	Reed	Vandenberg
McFarland	Reynolds	Van Nuys
McKellar	Rosier	Wagner
McNary	Schwartz	Wallgren
Maloney	Shipstead	Walsh
Maybank	Smathers	Wheeler
Millikin	Smith	White
Murdock	Spencer	Wiley
Murray	Stewart	Willis
Norris	Taft	

The PRESIDING OFFICER. Eighty-nine Senators having answered to their names, a quorum is present.

Mr. McCARRAN. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. McCARRAN. In support of the statement made by the able Senator from Ohio, with whose position I am in entire accord, I desire at this time to have printed in the RECORD a telegram which I sent to the State auditor of Nevada, and the State auditor's reply thereto, which supports the Senator's amendment in its entirety.

There being no objection, the telegram and letter were ordered to be printed in the RECORD, as follows:

SEPTEMBER 28, 1942.

DONALD LA RUE,

State Auditor, Carson City, Nev.:

Please write me air mail full detailed statement as to transactions by which bonds or other securities issued by municipalities, counties, or other legal subdivisions of Nevada come into the treasury of the State of Nevada and are held by the treasury of the State of Nevada as investments. I am trying to get full detail that I may present complete statement to the Senate for the elimination from taxation of bond issues put out by municipalities, etc., in Nevada and other States and held in the treasury of Nevada and other States as investments. Please confer with Dan Sullivan, industrial insurance commission, and have him air mail me fully at once on same subject. Would appreciate your giving me advantages and disadvantages this plan of use of bonds.

Kindest regards.

PAT McCARRAN.

STATE AUDITOR,  
Carson City, Nev., Sept. 28, 1942.

The Honorable PAT McCARRAN,  
The United States Senate,  
Washington, D. C.

DEAR SENATOR McCARRAN: Reply is made to your telegram of today requesting detailed information as to the acquisition of State and municipal bonds by the treasury of the State of Nevada.

What is true in regard to Nevada I believe is likewise true in most of the 48 States, as I believe that all States have certain trust funds, the income of which is used for educational and various charitable purposes.

To mention by name some of the trust funds held by the Nevada State treasurer: State permanent school fund, public school teachers' retirement fund, university 90,000-acre grant fund, Nevada surety bond trust fund, Nevada Industrial Commission trust fund, and numerous other educational trust funds in connection with the University of Nevada. Most of these latter are in the form of bequests to the university for the purpose of using the income from such bequests for the assistance of worthy students in obtaining funds to acquire an education.

I think that in practically every instance that the investment of these trust funds must be, by stipulation of the grantor, either securities of the United States Government

or securities of the various States and their political subdivisions.

The manner in which these funds acquire bonds, is, as a general rule, by purchase on the open market as the funds become available for investment, although in the case of all bonds issued by the State of Nevada, the legislature, in authorizing the issue, has specified that they be sold to the State of Nevada for the investment of the various trust funds, in this way eliminating open-market competition in these particular issues. This does not, of course, apply to the bonds issued by any of the State's political subdivisions, as in the latter cases the State is required to bid against the banks and brokerage houses.

In recent years, with the downward trend in interest rates, the income from these trust funds has naturally been reduced, although the full effect of the reduction has not yet been felt for the reason that the State still holds a fair proportion of the older bonds which carry the higher rates of interest. These bonds, of course, are maturing every year and are being replaced by the lower yield issues and within a short time our portfolios will undoubtedly contain only the low yield issues.

This income, as before stated, being used for educational and charitable purposes, regulates by its size, the amount of such educational and charitable work that can be done. For instance, if the rate on the \$3,000,000 invested by the State permanent school fund were reduced from, say 3 percent to 2 percent, the State distributive school fund would receive 33½ percent less income and the educational work done by the schools would either have to be curtailed a like amount or the deficit would have to be met by increased taxation.

The taxation of the income by the Federal Government would have exactly the same effect, as it would reduce the income exactly the amount of the tax.

The foregoing gives consideration only to the matter of the Federal Government collecting an income tax from the States on the income from its trust funds. However, my understanding is that the proposed legislation now before Congress goes even further and contemplates the taxation of the income of all bonds issued by States and political subdivisions regardless of by whom such securities are owned. Of course, the effect of the passage of such legislation would be that the State or political subdivision issuing the bonds would have to pay a rate of interest which would be higher by the exact amount of the tax levied by the Federal Government.

As an example, we might take the United States Treasury issue of 2 percent bonds which are due in 1950 and callable in 1948. There are two such issues now outstanding, on one of which the income is taxable and the other nontaxable. The nontaxable bond sells today in the open market for 104.5 while the taxable bond sells for 101.7 making the net return to the investor about the same in either case. Similarly if the State of Nevada or one of its political subdivisions were to make an offering of its bonds on a basis of taxable income and the prevailing rate of interest for nontaxable bonds was 2 percent, the State would probably be required to pay the purchaser of the bonds a rate of interest of 2¼ or 2½ percent, and the difference in the interest rate would, of course, again have to be met by the local taxpayer.

In the final analysis, the taxpayer, considering him as a whole over the entire United States, has made no gain by the fact that the Federal Government has taxed the income from bonds issued by the States or political subdivisions, as the amount that he may have saved in Federal taxes will have to be paid by him in local taxes; no new money has been created or new source of income has been tapped.

On the other hand, speaking of the taxpayer as a resident of Nevada, for instance, he has actually lost by the procedure of Fed-



eral taxation of such securities for the reason that he is required to shoulder a disproportionate load of the debt of the United States should his State become somewhat heavily indebted in local bond issues.

If there is any further information that I can furnish you, please call upon me freely.

I might add, just as a matter of information, that the State permanent school fund represents a bond investment at the present time of approximately \$3,000,000; the Nevada Industrial Commission bond fund represents an investment of approximately \$3,700,000, and various other trust funds of the State will probably represent an additional \$1,000,000.

As requested in your telegram, I am also referring the matter to Dan Sullivan with the request that he write direct to you on the subject.

Very truly yours,

D. G. LARUE,  
State Auditor.

Mr. LANGER. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. LANGER. I wish to place in the RECORD at this point a telegram which I received from the superintendent of the Grafton, N. Dak., Light and Water Department, in support of the amendment proposed by the Senator from Ohio.

There being no objection, the telegram was ordered to be printed in the RECORD, as follows:

GRAFTON, N. DAK., October 6, 1942.

Senator WILLIAM LANGER,

Washington, D. C.:

Grafton's municipal electric light plant is strongly opposed to the provision of the present tax bill providing for taxation of municipal bonds and asks that you fight the same with your vote and influence when it comes up for consideration in the Senate.

GRAFTON LIGHT AND WATER DEPARTMENT,  
By L. R. RONEY, Superintendent.

Mr. ELLENDER. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. ELLENDER. I do not know that more could be said on the subject than what has already been stated by the distinguished Senator from Ohio [Mr. BURTON], and the distinguished Senator from Arizona [Mr. HAYDEN]. There is no doubt that if the Federal Government taxes income from State and municipal bonds the public as a whole will have to pay for it by way of greater interest rates on future bond issues. In view of the fact that we can expect large increases in income taxes by the Federal Government in order to pay for the war, it will be very difficult for any municipality or State government to finance itself. The uncertainties of Federal income rates in the future will cause interest rates on State and municipal bonds to rise beyond reason and that in turn is bound to increase their difficulty of financing.

Mr. President, in support of the amendment offered by the Senator from Ohio I desire to have incorporated in the RECORD, following my remarks, a telegram from Hon. Sam H. Jones, Governor of the State of Louisiana, a telegram from Hon. Robert S. Maestri, mayor of New Orleans, a letter addressed to me from Willard E. Givens, executive secretary, National Education Association of the United States, with a letter attached thereto and addressed to Congressman ROBERT DOUGHTON; a letter

from Francis P. Burns, city attorney of New Orleans; a letter from William R. Barrow, of Barrow, Leary & Co., investment securities brokers, of Shreveport, La.; a telegram from the Louisiana Municipal Association; a letter from Jess S. Cave, commissioner of public finance, city of New Orleans; a telegram from W. G. Bowdon, mayor of Alexandria, La.; and a letter from John McW. Ford, commissioner, department of accounts and finance, city of Shreveport.

There being no objection, the letters and telegrams were ordered to be printed in the RECORD, as follows:

BATON ROUGE, LA., September 21, 1942.

Hon. ALLEN J. ELLENDER,

United States Senator:

As I am unalterably opposed to taxation of future issues of State and municipal bonds, because it will increase the cost of local government and encroach upon the rights of the sovereign States to finance themselves, I ask you to vote to strike this provision from the current revenue bill. I would appreciate your taking leadership in floor fight to beat this proposal and thus protect the States and cities.

SAM H. JONES,  
Governor of Louisiana.

NEW ORLEANS, LA., September 18, 1942.

United States Senator ALLEN J. ELLENDER,

Senate Office Building,  
Washington, D. C.:

I hope you will continue your good work opposing the taxation of municipal bonds by the United States Government.

ROBERT S. MAESTRI,  
Mayor of New Orleans.

NATIONAL EDUCATION ASSOCIATION  
OF THE UNITED STATES,  
Washington, D. C., September 16, 1942.  
Senator ALLEN J. ELLENDER,  
United States Senate,  
Washington, D. C.

MY DEAR SENATOR ELLENDER: Enclosed herewith please find copy of letter sent by National Education Association to Chairman DOUGHTON, of the House Committee on Ways and Means, opposing taxation of State and municipal securities.

Very truly yours,

WILLARD E. GIVENS.

MARCH 24, 1942.

Hon. R. L. DOUGHTON,

Chairman, Ways and Means Committee,  
House of Representatives,  
Washington, D. C.

DEAR CHAIRMAN DOUGHTON: I write to express the opposition of the National Education Association to one of the revenue proposals of the United States Treasury Department, now before your committee for consideration. This is a proposal to eliminate the exemption from taxation, under the Federal income-tax law, of the income from State and local government (including school district) bonds. As an organization which is interested in the financing of public services from State and local revenues, the National Education Association opposes this legislation on two main grounds:

1. It would increase the cost of borrowing by State and local governments at a time when other costs of these governments are already rising and when their revenue outlook is uncertain.

2. It would represent an unjustifiable interference by the Federal Government in the financial affairs of the States and municipalities.

These objections are further discussed in the following paragraphs.

In hearings before your committee on March 3, 1942, Mr. Randolph Paul testified

that, on the basis of Treasury studies, the spread between present interest rates on State and municipal tax-exempt securities and the rates which would have to be paid on such securities after the elimination of the tax exemption would be from one-fourth to one-half of 1 percent. Estimates from other usually reliable sources have placed this increase in interest rates somewhat higher. I am, of course, in no position to judge the accuracy of the various estimates. It should be noted, however, that a rise to 3½ percent of the interest rate on a 3-percent bond would increase the cost to the issuing government of financing that bond by about 17 percent. On this basis the increase in the cost of borrowing by State and local governments would seem to be appreciable. Such increased costs would have to be met by higher tax rates levied on the rank and file of State and local taxpayers—taxpayers who will also be called upon to carry the burden of heavily increased Federal taxation.

This increased cost of financing Government borrowing would come at a time when all other Government costs are likewise rising and when the revenue outlook for States and municipalities is, to say the least, uncertain. It seems possible that, within the next few years, revenues of State and local governments may not only fail to rise sufficiently to meet increases in costs of materials and personnel but may actually be reduced below their present level. Thus the Department of Finance of the State of Illinois reports that in 1941 35 percent of all sales subject to the retailer's occupation tax, which in part contributes to the support of public schools in that State, consisted of sales of commodities which have since been taken off the market by Federal Government action. Increased Federal income-tax rates are certain, sooner or later, to curtail State income tax yields. From a number of States the National Education Association has received estimates of reduced State tax revenues in 1943 ranging from 10 percent to 50 percent of 1941 or 1942 yields. Should serious reductions in State revenue become general, in the face of rising costs, the Federal Government might be called upon to give financial aid to the support of State and local public services. This would probably more than offset any income to the Federal Treasury gained through the taxation of securities now exempt.

The National Education Association realizes that winning the war is, and should be, the prime objective of all units of Government. It believes that State and local governments should cheerfully accept the burden of the added services which they are required to perform in connection with the war and should cooperate with the Federal program in every essential particular, but it also believes that the Federal Government has a responsibility for the protection of its political subdivisions from unnecessary interference in the performance of their normal functions.

The National Education Association does not consider the removal of the tax exemption from State and municipal bonds as essential to winning the war. On the contrary, it views this proposal as one more unwarranted step in the tightening of Federal control over State and local fiscal operations and the centralization of financial power at Washington. The prevalent trend in this direction is to some extent undoubtedly unavoidable in view of the war emergency, but for this very reason authority of State and local governments should be safeguarded as far as possible from any unnecessary encroachment.

I understand that the Treasury Department's stated reason for favoring the Federal taxation of State and municipal bonds is that it would eliminate the possibility of tax avoidance by wealthy individual investors in such bonds. I am informed, however,

that a very large proportion of these bonds is held, not by individual investors but by insurance companies, foundations, and semi-public agencies, types of organizations which may be said to render a public service.

Thank you for this opportunity to express our opinion in opposition to the proposal to tax State and local bonds.

Most cordially yours,

WILLARD E. GIVENS.

LAW DEPARTMENT,  
CITY OF NEW ORLEANS,

September 23, 1942.

HON. ALLEN J. ELLENDER,  
United States Senator,  
Washington, D. C.

DEAR SENATOR ELLENDER: I have been advised that the Senate Finance Committee has agreed to a report which will recommend that future municipal bond issues be subject to Federal income tax.

From my experience as city attorney I desire to state that if Congress does levy in the future an income tax on municipal bond issues it will seriously affect the abilities of municipalities to raise funds by bond issues, and at the same time will impose an added burden on the taxpayers who have to pay taxes to support such municipal bond issues.

I will not take up any more of your time in discussing this matter, but I am simply writing to state that if this proposed income-tax levy is not defeated it will have a disastrous effect on future municipal financing.

With expressions of my respect, I am,

Sincerely yours,

FRANCIS P. BURNS,  
City Attorney.

BARROW, LEARY & Co.,

Shreveport, La., September 22, 1942.

Senator ALLEN J. ELLENDER,  
Senator JOHN OVERTON,  
Senate Office Building,  
Washington, D. C.

GENTLEMEN: It is my understanding that the Senate committee has agreed to recommend to the Senate the Treasury's proposal to make future issues of State and municipal bonds subject to Federal income tax and that it is likely that the matter will come to a vote in the Senate sometime soon.

I am, therefore, taking this means of urging both of you gentlemen to oppose the passage of such a provision in the revenue act, not on the grounds that it makes any difference to the investment dealer because the dealer makes his profit in the turnover and not in the interest to be received. I urge your opposition on the grounds that the passage of such a proposal would be a further step toward the undermining of State and local government and would constitute further surrender of local rights to the Federal Government. The additional revenue to the Federal Government, according to the statisticians, will be substantially less than the additional property taxes that will have to be paid by local taxpayers, so that the cry of soaking the rich is a false cry in this case.

I have discussed this proposal with many of the local businessmen, who agree with that attitude, none of whom own any municipal bonds to my knowledge.

I should like very much to hear from each of you indicating your attitude on this proposal.

Respectfully yours,

WM. R. BARROW.

BATON ROUGE, LA., September 16, 1942.

Senator ALLEN J. ELLENDER,  
United States Senate,  
Senate Office Building:

The Louisiana Municipal Association reiterates their opposition to the Federal taxation of future issues of municipal bonds.

Please place this protest in the records at the hearings.

Mrs. HENRY JASTREMSKI,  
Secretary-Treasurer, Louisiana  
Municipal Association.

DEPARTMENT OF PUBLIC FINANCE,  
CITY OF NEW ORLEANS,

September 15, 1942.

Senator ALLEN J. ELLENDER,  
Senate Building, Washington, D. C.

DEAR SENATOR: Again the problem of deciding between the Treasury Department of the United States Government and the interests of the various States and municipalities making up the Government as to the double tax, being done by placing taxes upon present and future bond issues of the States and municipalities, has arisen. This issue will come up before the Senate, I understand, in the near future.

I believe that it would be a serious mistake to handicap the States and the municipalities by taxing their bond issues as is proposed by the Treasury Department.

I hope you will see your way clear to continue your opposition to this legislation. I would appreciate it if you will advise me as to your present opinion upon this subject.

Cordially,

JESS S. CAVE,  
Commissioner of Public Finance.

ALEXANDRIA, LA., September 23, 1942.

ALLEN J. ELLENDER,  
United States Senate,  
Washington, D. C.:

Understand Finance Committee will recommend that income on all future State and municipal bond issues be subject to Federal income tax. Urge that you exert every effort to defeat measure on floor. Such policy is arbitrary usurpation of State rights and will lead to bankruptcy of smaller municipalities which for generations have had to rely on tax exemption in marketing their securities.

W. G. BOWDON,  
Mayor of Alexandria.

CITY OF SHREVEPORT,

DEPARTMENT OF ACCOUNTS AND FINANCE,  
Shreveport, La., September 18, 1942.

HON. ALLEN J. ELLENDER,  
Senator, Senate Office Building,  
Washington, D. C.

DEAR ALLEN: I have already congratulated you through our mutual friend, your campaign manager, Elward Wright. But here it is again, because not only are you to be congratulated but so are the people of your native State, Louisiana. More power to you.

Now, again it looks like this good United States Senate of which you are a Member is still considering the possibility of taxing future issues of State and municipal securities. I have already addressed you several letters on this subject so do not deem a repetition of the whys and wherefores necessary for its being defeated. But, I do again ask that you exert every possible effort to see that this is not accomplished.

Seriously, Allen, city governments throughout these United States for the last quarter of a century have been the forgotten children not only of the States but now the National Government. If the National Government and the States keep on lambasting the cities and making it more and more impossible for them to operate as this democracy of ours expects them to operate there can be but one end—bankruptcy. And when you bankrupt your cities, you are in reality destroying the goose that lays the largest golden egg in tax avails, not only for the State but for the Nation.

So, I once more earnestly urge that you do your level best to prevent the enactment of

a law that will tax future issues of State and municipal securities.

Thanking you, I am

Sincerely your friend,

JNO. MCW. FORD,  
Commissioner of Accounts and Finance.

Mr. ELLENDER. Those letters and telegrams cite many reasons for not taxing the income from future State and municipal bonds. They are from persons of experience and much weight should be given to their views.

Mr. President, I desire to thank the distinguished Senator from Ohio [Mr. BURTON] for permitting me to interrupt him and affording me the opportunity of placing these data in the RECORD.

Mr. TUNNELL. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. TUNNELL. I desire to say that I heartily concur in the amendment offered by the Senator from Ohio [Mr. BURTON]. I have received a number of communications from my State, particularly from municipalities, as well as from the Governor of the State, in support of the amendment, and hope it will be agreed to.

Mr. BURTON. Mr. President, at the time the absence of a quorum was suggested, I was presenting an argument in support of my amendment, and I wish to point out the parliamentary situation in order that there may be no misunderstanding. The committee amendment before the Senate is section 112 of the bill. The effect of it is to exempt from taxation only those State and municipal securities which are issued before January 1, 1943. My amendment to this proposed committee amendment is now pending before the Senate. My amendment seeks to strike out from the committee amendment the words "before January 1, 1943", so that all State and municipal securities will continue to be exempt, as they are now. Therefore, in order to support the exemption of the State and municipal securities it will be necessary to vote "yea" on my pending amendment. I think there was a little confusion on that point at the time the Senator from South Carolina spoke.

Resuming the argument, I wish to point out that the Congress has passed upon this point several times. The Supreme Court has held the committee proposal unconstitutional and has not reversed itself on the point. I believe that the case is sound and clear that the proposed Federal taxation of the income from State and municipal securities is unconstitutional, as amounting to a Federal tax and burden upon the borrowing power of our States and municipalities.

Third. As a matter of authority, I wish to call attention to the kind of witnesses who appeared before the Senate committee and favored continuance of the exemption of State and municipal securities. Included among those witnesses were not only many representatives of States and cities, but also of the American Bar Association; the American Municipal Association; several State leagues of municipalities; the Municipal Finance Officers' Association; the United States Conference of Mayors; the National Edu-



cation Association; and the American Federation of Labor. Professor Lutz, professor of public finance at Princeton, and Professor Fairchild, professor of economics at Yale, also appeared.

Therefore, we have the support not only of previous action by the Congress and of the Supreme Court of the United States, but also of leading students of this matter who were impartial in their consideration of the question. This is in addition to the substantially unanimous opinion of those who have had closest experience with this subject in our States and cities.

There are at least seven distinct points of importance in this matter. I shall not attempt to reargue all seven points, because the Senate has previously had this question before it. I shall mention five, and argue two, which I believe to be particularly conclusive on the issue.

Mr. OVERTON. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. OVERTON. I am somewhat confused as to the effect of the Senator's amendment. Under existing law income derived from State and municipal bonds is exempt from Federal taxation. As I understand the Senator's amendment, he is undertaking to amend the committee amendment only in one particular.

Mr. BURTON. Let me explain it in this way—

Mr. OVERTON. If the Senator's amendment were adopted, as I understand, the existing law would apply, and income from State and local securities would be exempt from Federal taxation.

Mr. BURTON. If my amendment is adopted income from such securities will remain exempt.

Mr. OVERTON. In its entirety?

Mr. BURTON. In its entirety. As the Senator from Louisiana points out, the law now is that such securities are exempt; but the committee amendment is before the Senate. The committee amendment provides that only such securities as are issued before January 1, 1943, shall be exempt. Therefore, I move to strike out the words "before January 1, 1943." That would keep them all exempt whether issued before or after January 1, 1943. The reason I do not simply oppose the whole committee amendment is that there are other provisions in section 112 which relate to Federal securities, and which are not related to this issue.

Mr. OVERTON. I am very much in favor of the Senator's amendment.

Mr. BURTON. I appreciate the Senator's question. I hope we may have a clear understanding of the issue, because it is easy to misunderstand the parliamentary situation.

To refer briefly to the specific points which are at issue: First, the claim is frequently made that tax-free State and local securities result in widespread tax evasion. I believe that that situation is generally exaggerated and misunderstood. The reason I say that is because it is difficult to determine who holds such securities in large amounts.

As a matter of fact, the estate tax records of the Treasury show, for the

years 1926 to 1939, that only 6 percent of the capital in all estates of over \$50,000 in value, was invested in State and local issues. The 1940 records show a still lower percentage, thereby making it clear that the percentage of these securities in the personal estates of the country is not as large as is generally supposed.

One reason for this is obvious. Many of these securities are held by public trust funds, sinking funds, bank reserves, insurance companies, and depositaries, which either are entirely exempt themselves, or are at least not subject to the series of rising brackets of income tax that apply to individuals.

The second point I wish to make is that the bondholder who buys such bonds does not escape a substantial equivalent of the burden of income taxation. As I stated a moment ago in answer to a question, he indirectly pays to the local government that issues its bonds to him the market value of the exemption he receives. When he buys a bond at a low rate of interest he is foregoing a higher rate of interest, which would have to be added if he were to receive the same net income from the bond after paying a Federal income tax on that income.

Third. The reverse of this is seen when the experts estimate what would be the effect of the Senate committee's amendment. The situation is most interesting. What would be the effect of adopting the Senate committee amendment? Of course, it would apply only to future issues; but in order to make it clear, let us visualize the situation 20 years from now as applied to issues then outstanding and of about the same face value as the issues now outstanding.

The highest estimate of income tax to the Federal Government from these securities which I have seen is somewhere between \$150,000,000 and \$200,000,000 a year. At the present time, of course, the tax yield actually would be nothing under the proposed committee amendment. Ten years from now the yield would be a fraction of the figure which I have given. During the war, therefore, there would be no substantial gain to the Federal Government from the point of view of income taxes, because there are to be comparatively few State and local issues to be sold.

An interesting point arises when the experts estimate what would happen on any future issue that is offered to the public. Naturally, the buying public would then estimate the amount of income tax it would have to pay, and what should be added to the interest in order to justify the purchase of such bonds. The estimates vary, but they come together at an average guess of about a 1-percent increase in the interest rate to be paid on the bonds. Even though such increase be a little less than 1 percent, or if it be a little more than 1 percent, the point is clear; it is an added burden on the State or municipality issuing the bond.

If we visualize a full \$20,000,000,000 of such securities outstanding and visualize a 1-percent increase in interest rates on them, we have an annual increase of

\$200,000,000 in interest to be paid by the State and municipal governments which issue such securities. So, any way we put it, if the Federal Government is to gain between \$150,000,000 and \$200,000,000 in income taxes, the States and cities will lose approximately \$100,000,000, \$125,000,000, \$150,000,000, or perhaps \$200,000,000 in local taxes to pay the interest that will be used by some bondholders in paying income taxes on their income from the bonds.

Where do the local taxes come from to pay this increased interest? They do not come from the income-tax evaders. A so-called income-tax evader will simply hold his bond and draw the interest to make up his income taxes. This interest will be paid to him by the real estate taxpayers of our States, cities, and villages. Therefore, to the extent that this added interest charge reaches back to the small real-estate taxpayer, instead of being a progressive tax paid by the higher brackets of income taxation, it will be a regressive tax paid by many a little fellow who must pay real-estate taxes to furnish the revenue to pay the increased interest on the bonds. It goes to the Federal Government from the local real-estate taxpayer, routed through his city and through the holder of the city bonds. It will be an added Federal tax, and the State or city will receive the blame for it and the real-estate taxpayer rather than the bondholder will be paying most of it.

Fourth. This tax on future issues could become an entering wedge for later extending it to outstanding issues.

Fifth. I have mentioned the constitutional argument. Of course, the constitutional argument remains absolutely sound so long as the Supreme Court stands on its present decision. It applies to future as well as to outstanding issues.

I now wish to mention what I regard as one of the most important arguments on the merits against the committee amendment. I base this upon municipal experience in time of depression. What occurred in the years from 1919 to 1922, and between 1932 and 1934, may occur again. Interest rates on municipal and State securities will not then be low. They will be high.

One of the most informative statements made before the Senate Finance Committee was the statement made by an expert, Mr. Carl H. Chatters, executive director of the Municipal Finance Officers' Association of the United States. He took the time to tabulate the issues which were put out by cities in the United States from 1919 to 1922, at an interest rate of 5½ percent or more. He then pointed out that if 1 percent were added to this 5½ percent these cities would have to pay an interest rate of 6½ percent. Under many State constitutions and statutes this would make the issue unlawful because exceeding 6 percent. In addition, the burden would be so great that it would render the municipal security unmarketable even though lawful.

Those figures are impressive. In 1919, in 38 States there were 753 municipalities

which issued \$64,000,000 of bonds at a rate of 5½ percent or more.

In 1920, in 44 States, 1,239 municipalities issued bonds at 5½ percent or more, to the extent of \$347,000,000.

In 1921, in 45 States, 2,009 municipalities issued \$467,000,000 of bonds at 5½ percent and up.

In 1922, in 42 States, 1,820 municipalities issued \$139,000,000 of bonds at 5½ percent and up.

If 1 percent were added to the interest rates on those issues at a time when such municipalities were experiencing the greatest difficulty in meeting those demands of local self-government, which comes closest to the life of the American citizen, it would have forced the rate to 6¾ percent or more, and the financing power of these many municipalities of America would have been destroyed.

In 1932, at another time of high interest rates, in 37 States 486 municipalities issued \$136,000,000 of bonds at 5½ percent or more. As the situation progressed beyond that point and the interest rate during the depression tended to go beyond 5½ percent, resulting in inability to sell the issues, what happened? The Federal Government bought the issues or financed the municipalities.

In 1933, however, there still were 281 municipalities in 34 States that issued \$44,000,000 of bonds at 5½ percent or more.

In 1934, in 28 States 172 municipalities issued \$20,000,000 of bonds at 5½ percent or more.

The tragedy I point out is that if to-day we add 1 percent—or, with the higher income-tax rate, even 2 percent—to make up for the income taxes which may be involved, we confront our municipalities, and especially our small towns and villages, with an impossible rate of interest. They would not be able to finance their issues. This would lead toward the federalization of financing in our country through purchase of such bonds by the United States Government if they were to be sold at all. That, I believe, is a fundamental danger to the financing process of any post-war period, and we are to have another post-war period some day. This post-war period will be upon us even before the Federal Government had derived any substantial income from the future taxation of income from municipal issues.

My final point is the general undesirability of Federal influence upon local finances. Even in normal times this would throw the smaller community upon the Federal Government for the reason I have indicated.

Furthermore, if the Federal Government can thus tax the income from municipal securities, it can classify that taxation so as to tax certain municipalities or certain kinds of organizations or certain kinds of income. It could place one rate of tax on one kind of municipalities and then exempt the income from the securities of some other types of local government. If the Federal Government has the power to tax income from municipalities in that way, it can tax it in such degree and manner as it wishes. We should then find the Federal Government thereby having the

opportunity to discriminate between communities of the United States which they wish to finance and those that they may not wish to finance. We would then be in more danger than ever from the effects of Federal bureaucracy.

No step that we take now should be taken in a direction which would permit the increase of Federal control over local government. To my mind it is perfectly clear that in these times Federal control of local government inevitably merely spells "bureaucracy," which has in it many of the vices of dictatorship itself. On the other hand local control over local communities spells independence and is filled with the vital virtues upon which free government is built.

The issue today is on agreeing to the amendment which I have presented. I hope it will be agreed to so that, at this time, we shall not subject our States and cities to added Federal taxation, and so that at this time we shall not attempt to override the Constitution as it has been interpreted for half a century by the Supreme Court, especially under a plan whereby the Federal Government would receive hardly one additional cent of income for the needs of the present emergency.

Mr. GREEN. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. GREEN. I understood at least one of the Senator's arguments to be that if the income from bonds of States and municipalities were made subject to taxation, such bonds would not sell so advantageously, so that the burden of making up the difference would fall on the small taxpayers, and that therefore it is in the interest of the small taxpayers that the income from such bonds be tax exempt. Did I correctly understand the Senator?

Mr. BURTON. That is precisely the argument on the financial basis. Any taxation on income from municipal bonds would require that a higher rate of interest be paid, and that added cost would be borne by the municipal taxpayer, who is the small taxpayer.

Mr. GREEN. The same argument would require that income from the bonds of the Federal Government be exempt from taxation.

Mr. BURTON. The Federal Government can do as it wishes with the income from its own securities; it can levy a tax payable to itself from the interest on its bonds and then use that tax to pay that interest on similar bonds if it wants to do so. But I am arguing about Federal taxation of income from securities issued by local communities which obtain their interest funds from a different source of taxation, principally real estate taxes.

Mr. GREEN. Would the Senator's amendment advocate the exemption from taxation of income from Federal bonds?

Mr. BURTON. I was willing to concur in the taxation of income from Federal bonds.

Mr. GREEN. But the Senator's present amendment does not argue for that; does it?

Mr. BURTON. No; the present amendment has no relation to the taxation of income from Federal securities. That point has been settled; it remains settled. The Federal Government can tax itself and can turn the money thus received over several times if it wishes to do so; but I believe it is fundamentally unsound for it to undertake the taxation of the income from securities issued by States and cities.

Mr. GREEN. Does the Senator believe it fundamentally unsound for the Federal Government to exempt from taxation the income from Federal bonds?

Mr. BURTON. That matter is not before the Senate. Personally, I was willing to concede that interest from future issues of Federal bonds be taxed. Such taxation is now authorized on future issues of Federal bonds.

Mr. GREEN. In the interest of the taxpayers, in other words, all Federal bonds should be exempt from taxation; is that the point?

Mr. BURTON. No; that does not follow at all. The interest on Federal bonds is not paid out of real estate taxes. The added interest which goes to make up the income tax of the holder of Federal bonds does not come from real estate taxation.

Mr. VANDENBERG. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. VANDENBERG. I should like to ask the Senator about one phase of the matter. Let us eliminate for the moment the question of constitutional and State sovereignty. Is it not true that, with our tremendously increased individual income taxes, the tax-exempt coupon on a municipal bond is now about to acquire an utterly exaggerated, exorbitant, and unprecedented value in the hands of the individual taxpayer?

Mr. BURTON. The Senator refers to income from outstanding bonds and also from future bonds; does he?

Mr. VANDENBERG. I refer to any tax exemption for income from a State or municipal bond. Is not that exemption about to acquire a totally abnormal and exaggerated value as the result of the new tax bill?

Mr. BURTON. Of course, there is an abnormality in it; but referring to the part of the Senator's question which relates to the question before the Senate as to taxation of income from future bond issues of States and municipalities, let me say that the effect would be that the interest to be paid by the local taxpayer on the bonds to be issued by his city, if not tax-exempt, may well be forced up more than 1 percent, in order to make it possible to market the securities to purchasers who will have to pay the higher income taxes of the future. The effect of that would be even more damaging on the small villages and communities than would be the case now when the present income taxes would force the interest rates up only about 1 percent.

Mr. VANDENBERG. I am asking the Senator to come back to the question of profiteering from the war. It seems to me that day after tomorrow, after the tax bill becomes effective, the tax-exempt



municipal bond or State bond coupon would be the recipient of a profiteering value directly resulting from the war.

Mr. BURTON. I believe the Senator from Michigan overlooks the fact that such bonds are sold in the open market; and when a person buys such a bond he buys it at a tremendously low rate of interest and thereby indirectly pays a tax to the local community, or he buys it at a premium and thereby pays the equivalent of a tax to the issuer of the bond.

Mr. VANDENBERG. That is true on the average, but the moment we get into the higher brackets of the income tax is it not true that the individual who will confront the utterly burdensome high rates would obtain an exaggerated, abnormal, and unjustified value from such exemption?

Mr. BURTON. That is why I emphasized the point that the Treasury's estate-tax records show that only 6 percent of the capital value of estates of over \$50,000 were represented by securities of this kind. The great volume of such securities actually is in the hands of trust companies and other concerns which do not pay a graduated income tax. Therefore, there is a small group; and as one witness said to the committee, it amounts to "burning down the whole barn in order to catch a few mice." The collection of this proposed tax would upset the whole doctrine relative to taxation of income from securities issued by municipal and State governments.

Mr. VANDENBERG. I have always shared the view of the Senator from Ohio upon this subject, but when in respect to the new tax bill I confronted the increased increment in value, an increment increasing directly as a result of the war effort, and when I also confronted the fact that we are going down into the last brackets and are literally taking the shirt off the back of the low-income taxpayer, I confess that it seemed to me that at least as to future issues that was a loophole which could not consistently be ignored.

Mr. BURTON. Let me say to the Senator that the thing he should be talking about is something he is not talking about at all—the taxation of outstanding tax-exempt securities. During the period of the war only a small number of State and municipal securities have been issued—and not to exceed \$3,000,000 or \$5,000,000 in Federal income taxes can be derived from them.

Mr. VANDENBERG. The Senator is absolutely correct in the statement which he has just now made. The only reason why I oppose the taxation of existing obligations is because I think that would be a violation of a moral obligation. So, all I can do is to propose that we commence taxation of future issues.

Mr. BURTON. Let me point out to the Senator the moral obligation that exists as to future issues. I believe that their taxation would be a blow to the very foundation of local government in America. To tax income from these future issues is to subject all local communities to greater interest costs on their securi-

ties, and ultimately it will place those costs on the persons receiving small incomes. We should not upset or destroy our local governments.

Mr. DANAHER. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. DANAHER. The Senator has made an exceedingly able argument. If he has failed to cover any point in support of the position which he has taken, let me say that it was not pressed upon the committee. I desire to congratulate the Senator from Ohio.

However, he will recognize that this problem is a highly vexatious one. I desire to ask the Senator from Ohio if there is an income tax in his State.

Mr. BURTON. There is not.

Mr. DANAHER. Is there a tax levied by the State of Ohio in any way upon the holder in that State of the bond of another State?

Mr. BURTON. I think there is.

Mr. DANAHER. Will the Senator state what that is, please?

Mr. BURTON. I think it is a tax which is measured by the rate of income on the particular bond. It is in the nature of a property tax measured by the income derived from the property.

Mr. DANAHER. Is it not a fact that most States which do have State income taxes do tax the income derived by holders of municipal issues of other States?

Mr. BURTON. I do not know. I think that may be true. I have not experienced that.

Mr. WILEY. Mr. President, I can answer that question, if the Senator from Ohio will yield to me.

Mr. BURTON. I yield to the Senator from Wisconsin.

Mr. WILEY. That is absolutely the fact in Wisconsin. There, not only is the income from bonds of municipalities of the State taxed, but also the income from bonds of municipalities of other States.

Mr. DANAHER. I thank the Senator.

Mr. BURTON. However, that would not be a sufficient reason, in my mind, to justify the Federal Government's undertaking the taxation of its States, its subdivisions.

Mr. DANAHER. Mr. President, will the Senator state whether the bonds of given States in the hands of decedents—persons who die in those States—are subject to Federal taxation through the estate tax?

Mr. BURTON. I think they are.

Mr. CONNALLY. Mr. President, will the Senator yield?

Mr. BURTON. I yield to the Senator from Texas.

Mr. CONNALLY. The Senator from Ohio has already answered the Senator from Connecticut. Of course, they are subject to estate taxes and inheritance taxes. The Senator from Connecticut asked about one State taxing the bonds of another State. States can do that. New York State, for instance, taxes the income from bonds of my State and bonds of other States that are owned in New York; and I assume that some States

levy ad valorem taxes on them in the hands of holders, just as they levy an ad valorem tax on a bond or note.

However, that is not at all on a parity with the Federal Government's taxing the securities issued by instrumentalities of a State. Under our dual system no inhibition was placed on a State's taxing the bonds of other States.

Mr. AUSTIN. There was no reason for doing so.

Mr. CONNALLY. As just now suggested by the able senior Senator from Vermont, with his usual keen, analytical mind, in the Constitutional Convention, there was no occasion for putting in such a prohibition.

Many Senators will not agree with me on this point, but I am one of the old-fashioned fellows who believes that the Federal Government has no authority to tax the instrumentalities of a State.

There is no more potent instrumentality of any governmental organization than the taxing power. It goes right to the life and the heart of any political system. If the Federal Government can, by a process of taxation, lay a burden on one of the States or all the States, it can unbalance the dual system which we enjoy.

If I may make one further comment, I shall not bother the Senators longer. For the Federal Government or for a State to tax public bond issues is the greatest economic fallacy, if the question be analyzed, which can be found in this tax bill or anywhere in our statutes. I challenge anybody who will go to the facts and the record to deny that when we undertake to tax the income of public bonds issued by cities, towns, and States, it will be found that the interest rate which the taxpayers of the States and municipalities will have to pay by reason of the existence of the tax will be many times the return to the Federal Government. It simply means the people of the States will have to pay more taxes and the Federal Government will get a little smidging of income from it. Statistics prove that to be so.

This matter was under consideration in the House some years ago. At that time I went into it in great detail. I took the records of the Federal Treasury Department, and at least proved to my entire satisfaction that these elemental things were absolutely and undeniably true.

Mr. BURTON. I thank the Senator from Texas for his remarks.

Mr. BROWN. Mr. President, will the Senator yield?

Mr. BURTON. I am still in a colloquy with the Senator from Connecticut.

Mr. DANAHER. So far as I am concerned, I should be happy to yield to the Senator from Michigan, because I know the point that he wishes to discuss.

Mr. BROWN. I have not participated in this colloquy, but I should not want the fact that I had not done so to be taken as an indication that we on this side are not going to say anything about this matter, for we intend fully to discuss it, and particularly the point which the Senator from Texas just brought out. I

have figures and statistics showing the very slight additional burden that would be occasioned upon the taxpayers of cities such as Baltimore, New York, Cleveland, and other places. I would not like the statement the Senator from Texas has just made to go unchallenged. We intend fully to discuss the question. I shall not participate in the debate now, but I want the Senator from Texas and other Senators to know that the question will be debated and we shall undertake to refute the figures he has just given.

Mr. CONNALLY. Of course, I shall be glad to hear the Senator from Michigan when he undertakes to discuss this matter, but when he admits the slight increase in the tax rate he admits the case all the way through, because it is not the tax at the moment that is going to affect the bond buyer, but it is the potential tax. He does not know what it may be when he buys the bond. So when the Senator says it will increase it somewhat or increase it slightly, it seems to me he is cutting the ground from under the position of those who share his view. I have high respect for the Senator from Michigan. He has worked hard on this subject and deserves a great deal of credit of having expended much sweat and much energy in a bad cause.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. BURTON. I yield to the Senator from Tennessee.

Mr. McKELLAR. I desire to ask the Senator what is the amount of taxes involved in this particular item? It is very small, is it not?

Mr. BURTON. That is an interesting question. The committee amendment provides that only those bonds issued before January 1, 1943, shall be exempt. Therefore, the tax will apply only to those issued after January 1, 1943. It is obvious that at the present time municipalities and cities are restraining themselves from authorizing capital issues of bonds. So income to the Federal Government will come only as the coupons of new bonds are collected by their owners and the income tax is then collected from such owners. The estimate I found in the testimony before the committee was that during the first several years the Federal Government might get from three to five million dollars a year; in about 10 years that might be built up by a substantial issue of State and municipal bonds, and in 20 or 30 years such bond issues might about reach the point where they are now. So, looking at the maximum point 20 or 30 years from now, when there might be \$20,000,000,000 of these bonds outstanding at that time, the Federal Government might be collecting, it is estimated, between \$150,000,000 and \$200,000,000, but for the present, and during the war practically nothing, as was stated in the testimony, or almost a negligible amount.

Mr. McKELLAR. Would the Senator say that the purpose of the amendment is largely to establish the principle of the Federal Government taxing municipal, State, and county bonds?

Mr. BURTON. It seems to me it is entirely that, because there would be no money forthcoming to the Federal Gov-

ernment at this time. It may be even an opening wedge to try to tax outstanding issues.

Mr. McKELLAR. I thank the Senator.

Mr. DANAHER. Mr. President, will the Senator yield further?

Mr. BURTON. I yield.

Mr. DANAHER. In the course of the Senator's research did he make inquiry into the question whether or not our Federal income-tax would adhere against the income a State employee received from salaries or wages?

Mr. BURTON. I think it has been made perfectly clear that when we passed a statute taxing the salary of municipal employees that tax was placed on the individual, and the Supreme Court has upheld such a tax. But the point I emphasize is that Robert H. Jackson, then Solicitor General of the United States, in the case of *Graves v. New York ex rel. O'Keefe* (reported in 306 U. S. 466), argued the case and explained to the Court the difference between the taxing power in the case of salaries, as such, and in the case of Government securities, and explained it was apparent that when one deals with a creditor-debtor relationship the borrower is the one who is burdened. Accordingly, if the borrower is burdened, that means that the Governmental issuing body, namely, the State or city, is being taxed. Therein lies the distinction which the Supreme Court has not yet overruled, and I trust it will not do so.

Mr. DANAHER. The Senator has had wide municipal experience in his distinguished career as mayor of one of our great cities. Has he, in the course of his background work preparatory to coming to the Senate, inquired into the general sources from which State and municipal issues draw their funds? From what particular type of investors are the funds drawn? Are they drawn from insurance companies, or banks, or trust funds?

Mr. BURTON. I believe it is not questioned that, at least, a majority, and some estimate over 60 percent, of the outstanding issues of State and municipal securities, are held by public trust funds, sinking funds, bank reserves, insurance companies, or depositaries that are either exempt from income taxation or at least exempt from the graduated income tax.

Mr. DANAHER. Would it not be a natural thing to expect that if the tax exemption now accorded such securities were removed the block of such securities held by such institutions would be in very small amounts?

Mr. BURTON. In proportion to the extent to which they could absorb them and use them properly. They do not buy them for tax evasion. They buy them because they want them in their portfolios. That same situation would exist and not be greatly affected by this action; they still would buy large quantities of them.

Mr. DANAHER. Since they would be looking for long-term securities, the general probabilities are they could afford to handle them if the rate would make it economically feasible.

Mr. BURTON. If they should see that the Federal Government is taking unto itself, or is being permitted to take unto itself, a new interference with municipal and State securities, they might not have the same confidence in the stability of these bonds they had before, especially in the case of the bonds of the smaller communities. May I emphasize that the villages, and the small communities of 5,000, 10,000, 25,000, or 50,000 people in America which need to issue bonds, issue them in competition with the securities of the whole country? The reason they are able to sell their securities is largely because they have a little something extra to offer, and I do not know why the Congress, in the exercise of its judgment seeking to safeguard the development of America's smaller communities, should not continue to give them this natural advantage which they have had for 150 years.

Mr. DANAHER. Would the Senator have the idea of expanding the language of the committee amendment to include the taxation of all outstanding issues which have been traded in ever since the Treasury announced its intention of seeking to impose this particular tax?

Mr. BURTON. From the point of view of the municipalities, of course, the bonds already issued do not affect their future problems; those bonds are over the dam; however, there is involved a moral obligation and I believe a constitutional obligation. I go one step further than the Senator from Michigan. I recognize both the moral obligation and the constitutional obligation not to interfere with the relationship which has been established, especially in view of the fact that when the purchasers purchased those bonds in the very price charged them they paid a premium in reliance upon the statute and the Constitution.

Mr. DANAHER. That particular argument, let me say to the Senator, does not appeal to me. I do not see how they have any right to buy a tax exemption just because no right to tax has been asserted. There was not any tax on the income of the Senator from Ohio before 1913, but that did not mean he had a right to think he would be forever exempt. I do not see any merit to the contention.

Mr. BURTON. The merit I point out is that in decisions of the Supreme Court running from 1895 it was held that under the Constitution of the United States the Federal Government could not tax the income from one of these securities, and I think people had a right to rely upon the Supreme Court of the United States.

Mr. DANAHER. I think they did, and that is exactly where the whole problem turns. It is a matter of policy. It is not a matter of law at all; it is a matter of policy.

I think the Senator from Ohio has done a magnificent job in reviewing the incidence of what may be done in the event the Senate committee amendment shall prevail, and I applaud what he offered to us for our consideration, but I still say that the question of tax exemption as a matter of constitutionality can be resolved—and let us assume for present purposes that it can be—in favor



of the Government's right to tax insofar as it taxes income in the hands of the owner of the security. All that remains then is a matter of policy, and it does seem to me that, as the Senator said to the Senator from Michigan when he posed to him the question of how far in logic he would go, either we should not tax future issues at all, or we should tax both future issues and all outstandings which have been traded in ever since those who acquired them in the open market this year, let us say, were put on notice that this particular tax exemption was likely to be removed.

Certainly there will not be any equity in favor of such a person. Let me say to the Senator from Ohio that the course of the bond market demonstrates that all those issues this very year, in the prospectus, in notices of investment banking houses, and the like, have been carrying the notice, "These issues at the present time"—and I emphasize "at the present time"—"are being offered tax exempt," showing they knew, and the buyers were put on notice, that the likelihood existed of our removing the tax-exempt status of the income to the individual from municipals. It is a most important question, and I wish to thank the Senator from Ohio again.

Mr. BURTON. I am grateful to the Senator from Connecticut for his expression.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. McKELLAR. Following up the question I asked a few moments ago, I should like to say that I have always been inclined to the view that the doctrine that the power to tax is the power to destroy applies in such a case as this, and that it is unconstitutional to tax the bonds of the States, cities, and counties. Waiving that for the moment, I ask the Senator awhile ago whether there would be any real return from this tax under the present law, whether it amounted to anything in the emergency, and the Senator replied, as I recall, that it would amount to only several million dollars, that a very small number of millions of dollars would be recovered.

Mr. BURTON. If we win the war within a couple of years, we will get practically nothing under it during the war.

Mr. McKELLAR. So that under the present circumstances it is not a war measure at all?

Mr. BURTON. That is correct.

Mr. McKELLAR. But it is largely an effort to establish a policy of taxing State, municipal, and county bonds.

Mr. BURTON. It seems to be a most unfortunate time to try an experiment of that kind.

Mr. McKELLAR. It is a most unfortunate time to try such an experiment. If we were considering a bill providing for taxation of the interest on all bonds because of the war necessity, we would be confronted by a very different question, so far as I am concerned, because I might resolve constitutional doubts in favor of the Government at such a time as this.

I think all of us would naturally be inclined to resolve any reasonable doubt as

to the right of the Federal Government to tax in favor of the Government, if it were necessary to have the money in order to win the war, because that comes before everything. But if the tax assessed, as stated by the Senator, would amount to only a million or two million dollars—if it would amount to anything, it seems to me a matter of very doubtful propriety to attempt to enact such an amendment as that proposed. For that reason I shall support the amendment presented by the Senator from Ohio, to strike certain provisions from the committee amendment.

Mr. BURTON. The Senator has stated the issue before the Senate precisely as it is.

Mr. LANGER. Mr. President, will the Senator yield?

Mr. BURTON. I yield.

Mr. LANGER. I wish to be sure that I understand the situation to which the Senator has made reference.

Let us assume that a millionaire buys \$1,000,000 worth of bonds. If the amendment proposed by the Senator should be agreed to, the purchaser of these bonds would pay no tax upon them?

Mr. BURTON. If a millionaire buys \$1,000,000 worth of State securities, his income from them would not be subject to Federal taxation. He would have paid a price or a premium for them which would recognize the low rate of interest which the State was paying on the bonds.

Mr. LANGER. The final result is, however, that he can have \$1,000,000 invested in this type of security and not pay one penny of tax.

Mr. BURTON. That is correct. The State, however, would get the benefit of a lower rate of interest and he would receive a lower rate of return from the State.

Mr. LANGER. I understand that, but as a matter of fact he does not pay any taxes at all on those securities?

Mr. BURTON. Not on the income from the securities.

Mr. LANGER. If a farmer had 10 head of cattle or calves he would pay a tax on them.

Mr. BURTON. He would have to pay an increased local tax to pay the interest on the bond that was bought by the millionaire if the millionaire were taxed on the bond interest.

Mr. LANGER. Yes; but in an ordinary sense is it not true that the big-interest men who own large hotels and great institutions would benefit the same as the man who had a little cottage? Is not that true?

Mr. BURTON. They would pay real-estate taxes and the small owner of real estate is the one who is hurt by any increase in the rate of taxes on his municipal securities.

Mr. LANGER. That may not be true if the majority of the real estate is owned by a big trust company, for instance.

Mr. BURTON. If there is a community in which a majority of the residents are millionaires it is not in the United States.

Mr. LANGER. The Senator knows that in an average town the so-called best property in the town is held by the

so-called vested interests. Is not that true? It is true in Cleveland.

Mr. BURTON. The vested interests include also the many holders of small properties. I do not believe that the majority of real estate taxes in Cleveland are paid by wealthy people. They are paid by everybody who owns property there. The thing we try to guard against all the time is the regressive effect of taxes imposed at equal rates upon the little fellow as well as the big fellow.

Mr. LANGER. Regardless of that, they do pay a tax.

Mr. BURTON. Yes.

Mr. LANGER. And if the amendment offered by the Senator from Ohio is agreed to, he does not pay.

Mr. BURTON. If he is a real-estate owner, large or small, he does not have to pay an increase in his tax to meet an increase in his State or city bond interest that would have to be added to pay the bondholder's income tax on the interest.

Mr. LANGER. I thank the Senator.

Mr. BURTON. I wish to conclude with a statement of the parliamentary situation. In order that State and municipal securities may remain exempt, it will be necessary to adopt the amendment which I have offered.

Mr. DAVIS. Mr. President, at the outset, I desire to say that I do not own nor am I interested in municipal bonds.

I wish to speak briefly concerning one of the most unusual features of this measure—the taxation of future issues of municipal bonds. More than 9,000 municipalities have expressed opposition to this proposal. In my own State it has been opposed by the League of Third Class Cities, the Pennsylvania State Association of Township Commissioners, the Pennsylvania Association of Boroughs, the county supervisors, the Pennsylvania State School Directors Association and many other State organizations.

This is the first time any congressional action has been taken looking toward the taxation of municipal issues. If passed, it will mean that the Federal Government is taxing our schoolhouses, our public halls, our local institutions. It is understandable why the National Education Association is opposed to this action.

The amount of revenue that can be realized this year from the taxation of future municipal issues is exceedingly small—almost negligible, I might say, in view of the large sums required to meet the present emergency. Moreover, there will be substantially no revenues from this source for many years to come.

It will require from 20 to 30 years to replace with taxable issues the \$19,000,000,000 of outstanding issues which would remain tax immune. Moreover, the normal replacement of those \$19,000,000,000 would undoubtedly be delayed. Many States, municipalities, subdivisions, and agencies will be unable to issue bonds if the income is taxable. That means that the volume of future issues will be cut substantially. Moreover, a large proportion of the existing outstanding State and municipal bonds is held by the States, cities, and their subdivisions in

sinking funds and similar State portfolios.

Let us take a hypothetical case, for example. Let us suppose that the Commonwealth of Pennsylvania, which has \$205,000,000 of its own bonds outstanding, holds \$25,000,000 in its own sinking funds, pension, and retirement funds. If the Senate passes this bill and makes future issues taxable, the Commonwealth of Pennsylvania will first sell its outstanding and existing tax-immune obligations, held in its own sinking funds, to the general public in order to obtain funds without issuing taxable bonds. Multiply this example in our cities and counties and the number of such bonds which the States and cities can release for sale as tax-exempt bonds is tremendous. In all, the cities and counties of the Commonwealth of Pennsylvania have outstanding \$1,300,000,000 in existing tax-immune bonds. A fair proportion of those bonds, also, are held in the city and county sinking funds, and they, too, could be released for sale to the public so that the State, cities, and counties could delay for a not inconsiderable period the time when they would have to issue taxable municipal bonds.

It can be demonstrated that the Treasury Department's argument, that tax-immune bonds permit wholesale tax avoidance, is a grossly exaggerated myth. For instance, in 1939, when the Senator from Michigan [Mr. Brown] headed a special Senate committee to study this very problem, the Treasury Department produced as one of its experts, Prof. Kossuth Williamson, a professor from Wesleyan University at Middletown, Conn. At that time the witness stated (hearings before Special Committee on Taxation, 76th Cong., 1st sess., 1939, at p. 527):

Sample studies have been made of the composition of estates probated in recent years and estimates have been made by the Treasury Department and others as to distribution of the ownership of the existing tax-exempt securities. These studies suggest that there has been no great flight by the rich from other investments to tax-exempt securities, and that, in fact, the bulk of these securities are held by governments, institutions, corporations, banks, and insurance companies, not subject to the surtax. Almost all of the increase of governmental debt of recent years has, according to the Twentieth Century Fund, been taken up by credit institutions.

This cool and deliberate statement—which contradicts the Treasury's argument—was made by an economist brought to Washington to testify by the Treasury Department—not by the opposition.

Mr. President, it is important that the Senate fully understand that when Professor Williamson appeared as a Treasury expert he followed, in point of time, Dr. Harley L. Lutz, professor of public finance, Princeton University. Dr. Lutz appeared as a witness for the States and cities in opposition to the tax and he testified on this same subject of tax avoidance.

And all of the evidence that we can get from estate-tax returns, which is evidently throwing light upon the distribution of securities in the estates, that have been filed back to

1926, would indicate that there is a very small proportion of the trust estates, or those whose estates have passed through the mill in the last 2 years, invested in any kind of tax-exempt securities.

Put that together with the figures that have just been brought out, and the ownership of tax-exempt securities becomes an incidental matter. A man does not become rich by buying tax-exempt securities, and, as his estate increases, he seeks to diversify it more or less, and he buys Federal, local, or State bonds, for one purpose or another, and while one of those objectives may be the diminution of tax, nevertheless, it is not the only purpose. So these people do not own all of those tax-exempt securities.

The percentages are given in the report of the distribution of these estates, and, as I recall it, from all estates it is something like 5 percent plus on the net of the gross estates over a million dollars, and it is 9½ percent and a fraction for those under \$1,000,000.

Nor is this all. This same Treasury Department expert, Professor Williamson, whose testimony before the Senate committee in 1939 I quoted before, had more to say on this same subject in March 1941. At that time, writing in the *Annals of the American Academy*, he said:

The extent of evasion by the rich, through tax exemptions has been exaggerated by opponents of tax exemption . . . whatever the explanations, experience so far does not support the contention that tax exemption nullifies the progressive feature of the income tax or that the progressive income tax and tax exemption cannot exist together.

I think my colleagues will draw the full implication from Professor Williamson's testimony and writings. When he appeared as a Treasury witness he said:

There has been no great flight by the rich from other investments to tax-exempt securities.

Two years later, writing on his own, he states the proposition even more positively. He says that the tax evasion feature of tax-exempt bonds has been exaggerated by the Treasury Department.

I see the pattern of the Treasury Department's future action. Once they succeed in ramming this provision down the throats of this Congress they will be back here within 2 months pleading with you and me to tax outstanding bonds in order that they may obtain additional Federal revenues. They will remind us again of the all too familiar taxpayers, Mr. A, Mr. B, and Mr. C, who are receiving from \$600,000 to \$800,000 in tax-free municipal interest.

Then having opened the door by taxing future and outstanding issues, it will be simple for the Treasury Department to urge us to impose corporate taxes on the revenues of municipalities, and all proprietary functions of State and municipal government.

#### DISASTROUS EFFECTS ON LOCAL GOVERNMENT

Now let us look at the picture from the side of the States and cities. The representatives of more than 9,000 municipalities have been before congressional committees on a number of occasions during the past 4 years. They have produced experts whose experience in municipal finance is unquestioned even by the Treasury Department. These State and municipal experts—and I may add,

they were not here to grind their own personal axes—have said that in their opinion the elimination of the tax-immune feature of State and municipal bonds will require the States and cities to pay anywhere from 90 points up to as much as 175 points more in interest rates. For instance, I find that the comptroller of the city of New York estimated that in his opinion the taxation of future issues of New York City's bonds would increase that city's interest rates by at least 1¼ percent. In all, they produced some 20 or more experts from near and far. They had fiscal officers from the large States, like Henry Long, the commissioner of corporations in Massachusetts, and men from small cities and counties in my own State, like Norman A. Peil, of Easton. One of their witnesses, the late Morris Tremaine, comptroller of the State of New York, probably had issued more bonds than any one in the country except the Federal Government. When all the testimony of these men is boiled down we find a pretty general agreement that the increase in interest rates, resulting from the tax, would probably be about 1 percent, an increase in State and local borrowing costs of 33 percent on a 3-percent municipal bond.

I could cite figures for every State and city in this country and drive home to every Member of this body the enormity of the increased burden which the Treasury Department asks us to place on our States and cities. In my own Commonwealth a 1 percent increase of interest rates would ultimately add \$150,000,000 each year to our present burden. Of that, \$130,000,000 will have to be borne by the cities and counties of the Commonwealth of Pennsylvania.

Think of it, \$150,000,000 additional interest costs each year in my State alone. Mr. President, who do you suppose will bear that burden? Who do you suppose will bear the brunt of this Treasury-inspired proposal? I will tell you. It will be the real estate taxpayer, the home owner, and the rent payer, the man in the anthracite mines, the farmer, small merchants, and the great mass of all small home owners through the length and breadth of the Commonwealth of Pennsylvania. Let me show how this proposal will affect tax rates. If interest costs go up 1 percent, local real-estate tax rates in some of our Pennsylvania cities, for example, will increase by as much as \$1.60 per \$1,000 in Philadelphia; \$1.35 per \$1,000 in Pittsburgh; and \$1.10 per \$1,000 in Harrisburg.

We all know that 90 percent of State and local revenues are derived from real-estate taxes—that the humblest person, the person who does not earn enough to pay income taxes, pays some part of the real-estate taxes in his rent. These people will be compelled to assume an additional burden if we increase the costs of State and local government by taxing municipal securities.

That is how the proposed tax on municipal bonds will reach down into the pockets of all our citizens, and while you and I know that our people can ill afford to take an increase in State and local taxes at this time, I want to point out



that there are even more important and far-reaching consequences of this proposal.

In our own Commonwealth we constructed at least two outstanding toll projects which are now filling a vital military need. I refer to the Pennsylvania Turnpike and the Philadelphia-Camden Bridge. I need hardly tell you, Mr. President, how our war effort would be impeded without these two vital highway links, and yet it is fair to say, on the basis of expert testimony, that neither the Pennsylvania Turnpike nor the Philadelphia-Camden Bridge could have been built if the bonds issued for those purposes had been subject to Federal income tax.

No less an authority than Carl Chatters, the executive director of the Municipal Finance Officers Association of the United States and Canada—a nonprofit organization composed of municipal fiscal officers throughout the country—testified before the Senate Finance Committee that if State and municipal bonds had been taxable in the past, many of them could not have been sold.

He testified that for 7 years in the periods between 1919 to 1922 and 1923 to 1934 many thousands of municipal issues, running into the hundreds of millions of dollars were sold at coupon rates of 5½ percent or higher. He testified that had the bonds sold at those rates been taxable, then interest rates would have exceeded 6 percent and in some cases would have reached as high as 6½ percent or 7 percent, and he further testified that the history of municipal borrowing shows that bonds are not sold, but are usually withdrawn from the market if the rates exceed 6 percent. Mr. Chatters said:

Municipalities cannot pay too high interest rates, for if they do the citizens or the creditors or both will suffer. In general, a community cannot safely devote more than 25 percent of its revenue to debt service. When it does the public services must suffer or the community stands to default on its obligations. The usual "ceiling" on interest rates has come to be accepted as 6 percent by the general consensus of State legislatures, fiscal experts, and public officials.

Mr. President, I think the individual Members of the Senate should not overlook the importance of Mr. Chatters' testimony. In my own State, in the period of Mr. Chatters' study, there were only some 31 issues, amounting to a little over \$1,000,000 which were sold at coupon rates of 5¾ percent or more. In Wisconsin, though, there were some 83 sales totaling \$17,000,000; in Ohio some 1,717 sales, totaling \$163,000,000; in Idaho some 181 issues, totaling more than \$14,000,000; in Indiana 299 sales, totaling close to \$22,000,000, and so on, down through the roll call of all the States.

In other words, there was not a single State in the Union which did not have to sell municipal bonds at coupon rates of 5¾ percent or more in the period following the last war—1919 to 1922—and the depression of the 1930's—1932 to 1934. I can hazard a guess that the same difficulties will confront the States and cities in the not-too-distant future. If then State and municipal money rates rise to 5¾ percent or better, it can readily be

foreseen that municipal financing will be ruined if the bonds are taxed and the rates increased by another 1 percent. It is true there are some who have argued that such a result would be beneficial. They would like to see State and municipal spending curtailed. Those who do so lose sight of the fact that the vast bulk of State and municipal financing is essential and not the result of profligate spending.

I urge the Senate to reject the Treasury proposal to tax future issues of municipal bonds on the grounds that:

First. The taxation of future issues of municipal bonds will produce substantially no revenues for 20 or 30 years;

Second. There is no evidence of a wholesale tax avoidance by any large body of municipal bondholders;

Third. The over-all effects of the adoption of this tax would be disastrous to State and municipal government, because it would increase the cost of local government substantially; because it would vest control of municipal financing in the hands of Federal administrative officials; because it would hamper State and municipal post-war financing; because it would make it impossible for many States and cities to finance essential operations; and because the measure would at best be of doubtful constitutional validity; and

Finally, because the Treasury's proposal to tax municipal bonds would open the door to the taxation not only of outstanding State and municipal bonds but the very revenues of the States and cities themselves.

Mr. President, for all these reasons I shall vote for the amendment offered by the junior Senator from Ohio [Mr. Burton].

Mr. MALONEY. Mr. President, because I have received many communications from municipal officers in my State and from State officials as well, urging that I oppose this proposal of the Senate Finance Committee, I wish to make a very brief statement explaining why I shall support the committee.

The argument has been made, and will undoubtedly again be made in this debate, that this proposal is a trespass upon State rights. I dispute that contention. The statement is also made that the amount of revenue involved is small. I shall not discuss that feature at length either, because I know that the distinguished chairman of the committee and the able Senator from Michigan [Mr. Brown] have prepared figures and will show the special advantages allowed to wealthy men under the prevailing practice. I think it is interesting to note that time and again the illustrious predecessor of the able Senator from Michigan, the late Senator Couzens, was among the leading advocates of such a proposal as is now before us. Himself an extremely wealthy man, and one who had invested considerable money in municipal and State securities, he was among the leading advocates of that which the committee now proposes.

Mr. President, I should like to lay one ghost. The argument is made again and again that we are taking away the rights and powers of the States, or that we propose to do so. Such is not the case.

This is not a new proposal offered because of the war, as has been suggested; and I do not think that it is fair to make the argument that we should not attempt it because in the next several years it will not raise enough money to make it worth while. This proposal has been offered again and again over a period of years. Long before we ever dreamed that we would get into the war some of us advocated wiping out the tax-exemption privileges that go with this type of security. If we do not do so now, and delay it a few years longer because of the war, we shall be that much further away from taking what I regard as proper action.

Mr. President, we are simply saying to the States and the municipalities that, "So long as the condition now prevailing exists you are trespassing upon the rights of the Federal Government and the masses of American taxpayers." All we seek to say by the enactment of this language is that "You may not tell certain taxpayers of the country that they may escape their Federal obligations and avoid payment of income taxes." There is no trespass upon State rights. This is not a tax upon the States. This does not in any way inflict a penalty upon the States. This language would do no more than say to every individual citizen of the United States that he shall pay his share of the income-tax bill.

Mr. BURTON. Mr. President, will the Senator yield?

Mr. MALONEY. I yield.

Mr. BURTON. Will the Senator comment on the decision of the Supreme Court in the Pollock case, in which the Court held such a tax to be unconstitutional, and said that the direct effect of a tax of this kind would operate on the power to borrow before it is exercised?

Mr. MALONEY. As the Senator knows, I am not a lawyer. I am not familiar with the Pollock case, and I cannot comment on it. Will the Senator tell me when that case was decided?

Mr. BURTON. It was decided in 1895 by a unanimous decision of the Supreme Court.

Mr. MALONEY. Let me read from the sixteenth amendment to the Constitution of the United States:

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived.

Does the Senator wish to comment upon that language?

Mr. BURTON. In the cases of *Brushaber v. Union Pacific Railroad* (240 U. S. 1) and *Evans v. Gore* (253 U. S. 245), the Supreme Court pointed out that the sixteenth amendment did not change the law. The sixteenth amendment was not an attempt to change the law, but to provide that thereafter income taxes should not be regarded as direct taxes, and therefore should not be apportioned among the several States in accordance with population. It removed that restriction.

Mr. MALONEY. The Senator is correct. That is a part of what the sixteenth amendment did; but the language seems quite clear to me. I find no difficulty in understanding the words "from whatever source derived."

The point I am trying to make, in an effort to offset the States' rights argument which has been made, and which, I presume, will be made again in this debate, is that we propose to do no more than discontinue a subsidy heretofore granted by the Federal Government to the States of the Union, through which it is made more inviting for their securities customers to buy the bonds of the States and municipalities than those of corporations.

Mr. President, I am very much opposed to the amendment offered by the Senator from Ohio [Mr. BURTON]. I do not see how we are in any sense trespassing upon or interfering with States' rights. We are—I hope, at long last—demanding that the Federal Government have the complete right to say to every income taxpayer, or potential income taxpayer, "You cannot be excused from the payment of income taxes because of the desire of State officers that you buy State bonds."

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Ohio [Mr. BURTON].

Mr. BROWN. Mr. President, as Senators know, this issue has been before the Congress for a long time. Since the adoption of the income tax in 1913 practically every Secretary of the Treasury, including, I believe, Mr. Ogden Mills, who was Mr. Hoover's Secretary of the Treasury, has urged this reform in our tax procedure. I know that the great Senator from Virginia [Mr. GLASS] has long advocated it. He advocated it when he was Secretary of the Treasury. I believe that the last four Presidents of the United States have urged this reform in our tax procedure. The Congress has considered it several times. In 1933 it passed a bill taxing the interest on State and municipal bonds.

In its platforms of 1932 and 1936—I do not recall as to the platform of 1940—the Democratic Party urged this reform in the Federal tax system. In 1936 the so-called Frank report, written by the late Glenn Frank, who was for a long time president of the University of Wisconsin, urged that the Republican Party adopt this principle.

I believe that practically all the impartial students of taxation have advocated it. Some of those from the colleges and universities who appeared before our special committee and before the Finance Committee, particularly Professor Lutz, of Princeton, were hired advocates for the Association of State Attorneys General, and various municipal associations. A few authorities who are not hired men are opposed to this reform, but I think it fair to say that the great bulk of expert and scientific authority is in favor of it.

With that preliminary statement, I wish to spend a very few minutes upon the constitutional aspect of this question. I shall not spend much time on the so-called immunity rule, further than to say that it has been greatly abused. I believe that some decisions by the Supreme Court can be very justly criticized. I cite just one to show how far the immunity rule has gone. In the case of *Burnet*

against *Coronado Oil & Gas Co.*, involving school lands in the State of Oklahoma, an arrangement was entered into between the *Coronado Oil & Gas Co.* and the representatives of the school authorities of the State of Oklahoma.

By the terms of the agreement, seven-eighths of the money from the oil went to the *Coronado Oil & Gas Co.*, and one-eighth went to the school funds of the State of Oklahoma. The Commissioner of Internal Revenue attempted to tax the profits, the seven-eighths, which went to the *Coronado Oil & Gas Co.* That company resisted on the ground that this resulted in a tax upon the State of Oklahoma. There was no attempt to tax the returns, the one-seventh, which went into the school funds of the State of Oklahoma; all that the Government tried to tax was the seven-eighths received by the *Coronado Oil & Gas Co.*, a private corporation with no connection whatsoever with the Government of the United States, or with the government of the State of Oklahoma, or with the school system of the State of Oklahoma. Nevertheless, the courts held that under the immunity rule the *Coronado Oil & Gas Co.*, because the oil came from State land, was immune from Federal taxation on its seven-eighths of the income from State lands.

I repeat that the question as to the one-eighth which went into the State primary-school fund was not involved at all; the Government did not try to tax that.

Four judges dissented in that case, which was decided in 1932. Some 5 or 6 years later, in the *Mountain Producers Corporation* case, involving the same question, the Court, in a 5-to-4 decision, reversed the *Coronado* case. Thus justice was finally done, and since that time the immunity rule has been considerably scaled down.

On the constitutional question involved we have these underlying general facts: In the sixteenth amendment—that is, the income-tax amendment—which I think was adopted in 1913, it is provided in substance that income from whatever source derived is taxable by the Federal Government.

During the Civil War there arose a tax problem similar to that which presents itself to any government in a great emergency. Five different income-tax laws were passed during the Civil War period. Each one of those income-tax laws taxed all income from whatever source derived. That was the exact language of the statute. From 1862 to, I think, 1869, when Civil War income taxation was done away with, the income from State and municipal bonds was taxed. No one asserted that the Federal Government did not have the right to tax it. No litigation was instituted. Everyone paid the tax. There was a practical construction of the statute, a practical disregard of the so-called immunity rule, and everyone agreed that the income from, or interest on, municipal bonds and State bonds was taxable.

Such was the condition until 1893 or 1894, sometime in the early nineties, when, because of the necessities of the moment, because of the need for greater revenue, another Federal income-tax law

was enacted. That law provided for the taxation of incomes from whatever source derived. Based upon the Treasury practice and upon the experience under the Civil War acts, the Commissioner of Internal Revenue taxed individuals upon income derived from public obligations. That gave rise to one of the most famous cases decided by the Supreme Court in its history, the case of *Pollock* against *Farmers' Loan & Trust Co.* The issue in the case—and I shall confine my statement to the issue which is concerned here—was this: The bank, I believe, paid the income tax upon its corporate profits, based upon income received from State and municipal bonds. *Pollock*, my recollection is, was a stockholder in the bank, and he got into court upon the theory that the officers of the bank or the bank itself had illegally and unconstitutionally paid out of its profits taxes upon the income from municipal bonds. I believe that the suit was in the nature of an injunction; but that point is not important.

The issue upon that subject as presented to the Supreme Court of the United States was: Has the Federal Government under the Constitution the power to tax income from municipal bonds in the hands of the *Farmers' Loan & Trust Co.*?

It has been some time since I closely looked into the matter; but I think I am correct in my general statement.

That issue was presented to the Supreme Court, and upon that issue the Court held unanimously that interest on the bonds could not be taxed, because of the immunity rule. Of course, at that time there was no sixteenth amendment. That case was decided in 1895, I believe, just before the close of the nineteenth century.

Immediately throughout the United States there arose a hue and cry against the decision in the *Pollock* case. Of course, it struck down not only the taxation of municipal bonds, but all income taxation.

There immediately arose, throughout the country, particularly in the Midwest, a great demand for a constitutional amendment which would permit the taxation of income. After a number of years, after a great many legislatures had petitioned the Congress to adopt such an amendment, after public discussions by such great scholars as Professor Seligman, Professor Ely, Professor Commons, and other great liberal educators and authorities of that day, Congress submitted to the several States the sixteenth amendment. I think that the distinguished senior Senator from Nebraska [Mr. NORRIS] was in Congress at the time.

After the measure was thoroughly debated in the Congress the sixteenth amendment was adopted, and was submitted to the various States for ratification.

In the eastern part of the United States, the section of the country in which opposition to the amendment was the most bitter, there developed a great contest. The Governor of New York was Charles Evans Hughes, lately Chief Justice of the Supreme Court of the United States. The attorneys in the *Pollock* case, a Mr. Choate and Mr. Guthrie, were



probably among the half dozen or dozen foremost lawyers in the United States. They had won the Pollock case. They were hired by the financial interests in the city of New York who were opposed to the ratification of the sixteenth amendment. They appeared before the Governor of New York, and they appeared before the appropriate committee of the New York State Legislature. Senators will find in the record of the debate in September 1940, when this question was last before the Senate, the statements of Mr. Guthrie and Mr. Choate to the New York State Legislature, in which they said there was absolutely no question that if the sixteenth amendment were ratified the rule in the Pollock case against taxation of income from municipal and State bonds would be abrogated.

There is no question but that the issue was squarely presented to the American people. They called attention to the fact that the four or five Civil War statutes and the statutes of the early nineties which refer to income from whatever source derived as being taxable, were almost identical in terms with the phraseology of the sixteenth amendment which says that income shall be taxed from whatever source derived.

It was argued to the New York State Legislature that, if the sixteenth amendment were ratified as it was adopted by the Senate, there could be no question that State and municipal bonds would be subject to the Federal power to tax under that amendment. Governor Hughes was opposed to the taxation of State and municipal bonds. He sent a message to the legislature stating that there could be no question, if the sixteenth amendment were ratified as written, but that it would give undoubted power to the Federal Government to tax the interest on State and municipal bonds.

I ask unanimous consent, Mr. President, that an extract from the message sent by Governor Hughes to the New York Legislature be printed in the *RECORD* at this point in my remarks.

There being no objection, the extract was ordered to be printed in the *RECORD*, as follows:

But the power to tax incomes should not be granted in such terms as to subject to Federal taxation the incomes derived from bonds issued by the State itself, or those issued by municipal governments organized under the State's authority. To place the borrowing capacity of the State and of its governmental agencies at the mercy of the Federal taxing power would be an impairment of the essential rights of the State which, as its officers, we are bound to defend.

You are called upon to deal with a specific proposal to amend the Constitution, and your action must necessarily be determined not by a general consideration of the propriety of a just Federal income tax, or of giving to the Federal Government the power to lay such a tax, but whether or not the particular proposal is of such a character as to warrant your assent.

This proposal is that the Federal Government shall have the power to lay and collect taxes on incomes "from whatever source derived."

It is to be borne in mind that this is not a mere statute to be construed in the light of constitutional restrictions, express or im-

plied, but a proposed amendment to the Constitution itself which, if ratified, will be in effect a grant to the Federal Government of the power which it defines.

The comprehensive words "from whatever source derived," if taken in their natural sense, would include not only incomes from ordinary real or personal property, but also incomes derived from State and municipal securities.

Mr. BROWN. The State Legislature of New York followed the advice of Governor Hughes and refused to ratify the amendment. Shortly thereafter there occurred an election, and in that election the Democratic platform upon which soon-to-be Gov. John A. Dix stood, condemned the action of the New York Legislature in refusing to ratify the sixteenth amendment, and said if the Democrats were in control of the government of the State of New York they would ratify the sixteenth amendment. The Democrats won, and the legislature promptly ratified the sixteenth amendment.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. McKELLAR. The sixteenth amendment reads as follows:

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States and without regard to any census or enumeration.

Under that language does the Senator think that the income received by States and counties and municipalities by way of taxation would be taxable?

Mr. BROWN. I certainly do not. That is the precise point where the immunity rule logically comes in. State and municipal income as such is not taxable, but, if the Senator will bear with me for a few moments, I will show him that incidental taxes are constantly levied by the States against the Federal Government and by the Federal Government against State and municipal governments, and there have been repeated decisions to the effect that that may be done.

Mr. McKELLAR. That is in the case of national banks—

Mr. BROWN. Sales taxes, for instance.

Mr. McKELLAR. And where it is permitted by law, is it not?

Mr. BROWN. No; it is a refinement of the immunity rule. But my position is—

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. CLARK of Missouri. It is true, is it not, that moneys raised by States and municipalities by taxation are not income in any accepted sense of the term income, and, therefore, not within the purview of the sixteenth amendment to the Constitution?

Mr. BROWN. The Senator is correct about that.

The same general discussion which occurred with respect to the ratification of the sixteenth amendment by the New York State Legislature occurred in many other States in the Union. In a great many States the amendment was ratified without any particular discussion. Some Governors disagreed with the construc-

tion that was placed upon the amendment by Governor Hughes; but since New York was the largest State in the Union, and since the financial interests were located there, it was the most important State with respect to this matter, and since its newspapers are the most widely read of those of any other State in the Union, great importance was attached to the action of the New York State Legislature.

I think no one can read the record without being forced to the conclusion that the sixteenth amendment was adopted not only in New York but throughout the United States with full knowledge of the fact that the amendment contained almost the identical phraseology which was the subject of discussion in the Pollock case, the phraseology under which bonds had been taxed from 1861 or 1862 down to the time of the Pollock case.

I wish to say to Members of the Senate that my own rather exhaustive investigation of this matter, extending now over a period of approximately 4 years as chairman of the special committee in charge, has convinced me that there could be no other result, if the question of the right and power of the Federal Government to tax these bonds were presented to the Supreme Court of the United States. I shall not take the time of the Senate to discuss the immunity rule, because, so far as I am concerned personally, I think there can be no doubt of our right and power to tax on the basis of the sixteenth amendment.

Mr. BURTON. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. BURTON. In connection with the discussion of the sixteenth amendment I should not like to leave the record in the shape in which it now is, particularly in view of the formal statement of the American Bar Association that it regards the proposal as unconstitutional and that proceedings should be by constitutional amendment. I wish particularly to call attention to the material which was before the house of delegates of the American Bar Association in March 1941, in which the following quotation was made from Senator Borah, who argued the issue on the floor of the Senate and who was supported by Senator Norris Brown, the author of the constitutional amendment. Senator Borah said:

The words "from whatever source" add nothing to the force of the amendment. It would, in constitutional parlance, be just the same if it said "to lay and collect taxes on incomes without apportionment," for who could then say that you would not have the right to lay taxes upon all incomes? The present taxing power would not be a particle stronger if it stated "to lay and collect taxes upon all property from whatever source."

Then, Senator Borah, who at that time was one of our great constitutional lawyers, said:

To construe the proposed amendment so as to enable us to tax the instrumentalities of the State would do violence to the rules laid down by the Supreme Court for a hundred years, wrench the whole Constitution from its harmonious proportions, and destroy

the object and purpose for which the whole instrument was framed.

Senator Norris Brown supported him, indeed I understand Senator Elihu Root and Professor Seligman did likewise. The case has since come before the Supreme Court in several cases, and Mr. Justice Hughes did not agree with Governor Hughes on the issue.

Mr. BROWN. I do not think the Senator can say that Mr. Justice Hughes disagreed with Governor Hughes, for the case was not presented to the Court during the time he was a member of it.

The attitude of the Supreme Court on the issue stemmed largely, as I recall, from the case of Evans against Gore, in which a very different question was placed before the Court, that is, the right of the Federal Government to tax the salary of Federal judges. In the decision, purely by way of dicta, the Court threw in an observation to the effect that the sixteenth amendment did not authorize the taxation of bonds of municipalities. The question was never decided.

I wish to say to the Senator from Ohio that I have read the debate in 1909, I think it was, on the question of the submission of the sixteenth amendment, which was submitted in 1909 and formally ratified in 1913, and never during the course of the debate was any reference made by any Senator to the legislative interpretation of the language which was written into the sixteenth amendment. It is amazing that that great debate should have taken place without any discussion of the Civil War statutes, and without any discussion of the statute upon which the Pollock case itself was decided. Everyone was talking about income taxes generally, and the greatest struggle was over the power of the Federal Government to tax incomes at all. The municipal bond proposition was a secondary part of the great fight, just as it was the secondary question in the Pollock case. But there can be no doubt the question was decided in the Pollock case, and there can be no question that Governor Hughes and other Governors emphasized the fact that the proposed amendment did empower the Federal Government to tax the income from the securities of municipalities.

Mr. President, with these observations on the legal side, I wish to give a few examples of the evil we are trying to correct by the adoption of the amendment.

Mr. BURTON. Mr. President, will the Senator permit just one further interruption, in order that it may appear in the RECORD?

Mr. BROWN. I yield.

Mr. BURTON. In the minority views of the special committee on taxation of governmental securities and salaries, presented by the Senator from Vermont [Mr. AUSTIN] and Senator Burke, after making their study of the situation, they included one statement which I think might appropriately appear in the RECORD at this point. On page 1 of the minority views, part 2 of report 2140, they said:

The shocking argument that the sixteenth amendment, in effect, granted to the Federal Government what the Department of Justice

itself is pleased to describe as the supreme power to tax the States is as unsupported by the facts and the history of its adoption as it is directly contrary to the decisions of the Supreme Court that rejected it when it was first suggested.

Mr. BROWN. Mr. President, I thank the Senator for the statement. The committee to which he referred decided 4 to 2, as I recall, upon that question, the four holding that the legislation was not only necessary, but constitutional.

I wish to give a few examples of the evil we are trying to correct. The Secretary of the Treasury wants to go much further than I would go. He wants to have all outstanding municipal bonds, as well as future issues, taxed. I declined to go along with that proposition, as did the Finance Committee.

There is very sound argument for the position of the Secretary of the Treasury, at least with respect to a part of his contention. I think, and I believe the majority of the Finance Committee is of opinion, that there is something in the nature of a contract, at least by acquiescence, on the part of the Federal Government, not to tax these bonds, and that it would be unfair to tax bonds issued by States and municipalities, and which were purchased by the investing public upon the theory and understanding that such bonds were not to be taxed.

The great mass of these bonds were issued at a time when there was no contemplation of the enormous increase in personal income taxes which has occurred since. There is some justification for the Secretary's position on that ground.

If it were possible to draw a line of demarcation and say, "We will give you the immunity, in this income taxation, with respect to taxes as they were at the time the bonds were issued, or as to taxes such as might be reasonably contemplated in the future," that would be all right, but where we have the income tax multiplied two, three, or four times—I do not know what the figure is—they being so very much greater than was contemplated before, the holders of these bonds have an unconscionable advantage. But I cannot draw the line of demarcation. I asked the Treasury to find some way of doing it, and they can present no plan which would do the job fairly and reasonably.

I am standing on the position my committee took, that it is better to start this reform now, when everyone who would buy a bond from this time on would know it was taxable; and that is the position the Finance Committee took.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. McKELLAR. If the income from all municipal bonds were taxed, instead of just the income from bonds issued in the future, how much did the Treasury estimate would be the income derived from the taxation upon the income from municipal bonds just as they are now, under the rates provided in the bill?

Mr. BROWN. I have an estimate that under the income tax rates proposed by the Treasury it would be \$275,000,000 a year.

Mr. McKELLAR. It seems to me it would be very unwise to take this step during the present crisis. We are now engaged in a war. We need all the money we can get, and we extend ourselves to find sources of revenue. I would not at all hesitate to put a tax on all bonds if that step were necessary to enable us to win the war, but the wisdom of exempting the bonds that are now outstanding and merely taxing those which will be issued in the future, seems to me exceedingly doubtful. I cannot see how that would at all be helpful in financing the war effort.

Mr. TYDINGS. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. TYDINGS. I would imagine that where securities are now outstanding, which, under the recall clause, are recalled before the date of maturity so that they may be refinanced at a lower rate of interest, the bonds so issued of the category I have described would be considered as new bonds themselves, even though they were anticipated prior to the date of their maturity.

Mr. BROWN. I think the Senator is correct in his observation, and I have no doubt that the situation to which the Senator from Tennessee refers would be greatly alleviated by the course which the municipalities would take as suggested by the Senator from Maryland.

I should like to agree with the suggestion made by the Senator from Tennessee if I could square it with my own ideas of fairness, but it is very difficult for me to do so.

The Senator from Wisconsin has had in mind the offering of an amendment to cover outstanding issues. In his speech in Cleveland some months ago, the Secretary of the Treasury squarely came out for that kind of taxation, and I may say that, among other things, the Treasury appears to be at considerable odds with the Finance Committee with respect to the issue.

Mr. McKELLAR. I can readily understand how there could be a difference of opinion about a matter of that kind, because the bonds were issued when no tax was imposed upon them, and when none was contemplated, so far as I know.

Mr. BROWN. That is the difficulty.

Mr. McKELLAR. But the amendments offered by the committee would result in little or no revenue, and the main object of the pending bill is to raise revenue in support of the war effort, and it seems to me it is not wise to bring this issue up at the present time. We can easily get rid of the constitutional question by deferring it until it may arise in connection with a proposed constitutional amendment.

Mr. BROWN. I will say to the Senator from Tennessee, in answer to his argument, which is very good, I readily grant, that today we are paying about one-third of our war expenses out of current income, with no progress whatsoever being made toward reduction of debt but, on the contrary, piling it up.

Mr. McKELLAR. I will say to the Senator that the proportion is not quite as great as he has stated. It is a high proportion, however.



Mr. BROWN. I think the Senator from Georgia is correct in his statement that the pending tax bill will bring in very much more than \$26,000,000,000, the amount which was estimated by the Treasury.

Mr. McKELLAR. I think the Senator's statement is correct.

Mr. BROWN. If we are spending \$75,000,000,000, in round figures, we are paying about one-third of the cost of the war out of current income. Where are we going to get the rest? We are going to get it out of the taxes which will be assessed against this generation, the next generation, and the generation following. We want to now establish a rule of fairness and justice in taxation that will not permit this wide avenue of escape on the part of wealthy people from paying their just share of the taxes, and any tax reform which we may now institute will have its greatest effect in future years, when most of the municipal issues now outstanding will have been paid, and new issues, which will be fully taxable, will bear their fair share of the burden.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. McKELLAR. I can understand the argument of the Senator from Michigan, and it is persuasive. On the other hand, the great argument which is made in favor of taxing the incomes from State, county, and municipal bonds, is that there is a tremendous sum of money which now goes absolutely untaxed, the income on \$18,000,000,000 of such bonds. That is an exceedingly persuasive argument in itself. It was made on the floor of the Senate today. As I understand the committee amendment, it leaves that \$18,000,000,000 absolutely free of taxes, so far as this measure is concerned.

Mr. BARKLEY. Mr. President—

The PRESIDING OFFICER (Mr. HILL in the chair). Does the Senator from Michigan yield to the Senator from Kentucky?

Mr. BROWN. I yield.

Mr. BARKLEY. It is not accurate to say that \$18,000,000,000 is free from taxation. It is the income from the \$18,000,000,000 worth of outstanding bonds which is free from taxation.

Mr. McKELLAR. It was my intention to refer to the income from the amount.

Mr. BARKLEY. The amount of outstanding municipal, State, and county bonds is about \$18,000,000,000, and it is the income from that which is proposed to be dealt with.

Mr. BROWN. I recently read the testimony of Professor Lutz, who is an authority on the subject, who said those bonds represented a principal amount of more than \$19,000,000,000.

Mr. BARKLEY. My statement related to the previous statement, that there is that much money escaping taxation.

Mr. President, with regard to the question asked by the Senator from Maryland [Mr. Tydings] as to what effect the taxation of future issues of municipal bonds would have upon bonds which are falling due, which have to be refunded—

Mr. TYDINGS. I mean before their maturity.

Mr. BARKLEY. Under the bill they would not be taxed until their maturity, and when refunding bonds are issued in lieu of them. The subcommittee of which the Senator from Michigan [Mr. Brown] was the chairman found, I think, in its investigation that the difference in the interest rates which these municipal bonds would have to bear if they were taxed as other issues of bonds are taxed would be about 1½ percent.

Mr. BROWN. I wish to beg the Senator's pardon in respect to that. I made that statement in answer to a question asked me by the Senator in committee. I corrected that statement, but the correction does not appear in the RECORD. The testimony was not 1½ percent, but one-quarter of 1 percent. The estimate of Professor Lutz, who was, one might say, the advocate of the other side, was about six-tenths of 1 percent. The Treasury estimate was three-eighths of 1 percent.

Mr. BARKLEY. As I recall the statement made before the committee at its recent hearings it was one-half of 1 percent, and I was contrasting that statement with the Senator's statement of 1½ percent, which he said he later corrected.

Mr. BROWN. Yes, I corrected it.

Mr. BARKLEY. I did not hear or see the correction.

Mr. BROWN. It was a slip of the memory.

Mr. BARKLEY. At any rate, whatever the figure may be—assuming that those who purchased these bonds, at the time they purchased them were actuated in accepting a lower rate of return by reason of the nontaxability of the bonds and the income, I suppose we might assume that on the reissue of these bonds, which would be taxable, any investor, whether the old holder who would purchase refunding bonds, or new purchasers of refunding bonds, would have to be willing to accept a lower rate of interest on his investment based upon the fact that it would be taxable thenceforward. If he were not willing to do that, of course, the increase, whatever it might be—perhaps one-half of 1 percent—would have to be added to the interest which the municipal bonds would bear, and inasmuch as interest on these bonds, as well as the face value, can only be paid by public revenues derived from taxation, of course, it would mean that the local community would have to tax itself to a greater extent in order to raise even one-half of 1 percent more interest on the bonds than it would when the bonds are exempt from taxation.

Mr. BROWN. There is no doubt about that.

Mr. BARKLEY. I think we ought to keep in mind the fact that the higher the rate of Federal taxation—and it must go higher than it is now, as we all realize—the larger must be the interest rate on local bonds when they are reissued, if the investor takes into consideration what he will be required to pay out in the way of taxes upon them, if we are to assume that they are to become taxable for all purposes, local and national.

The city in which I live has a tax rate of about \$3 on \$100. That is about what

the municipal bonds of that city bear in interest. Those bonds are issued for the purpose of building schoolhouses, to build streets, to build sewer systems, and for all sorts of public improvement. Such improvements could not be made without the issue of bonds, without the borrowing of money. If all those bonds are taxable as other property is taxable, they would pay in taxes about \$3 per \$100, which is about 3 percent of their face value, and that is the interest rate which they bear. In that event, we know that in order to issue bonds upon a basis comparable with those which are now outstanding, the rate of interest would have to be 6 percent, and the community would have to increase its own local taxation to pay the higher rate of interest.

The amendment involved here, which the Senator from Michigan is discussing, of course does not go to the extent of providing, and, of course, it could not, for local taxation of bonds issued in any community, but if the principle of taxation with respect to a municipal bond is logical in one sense of the word it is logical in all senses of the word, and the holder of such a bond ought to be required to pay taxes not only upon the income but upon the face value of his bond.

Mr. BROWN. Mr. President, I would call the attention of the Senator from Kentucky to the figures of the advocate for the Association of State Attorneys General. At the invitation of the Senator from Maryland [Mr. Tydings] about a year ago I addressed the Baltimore Real Estate Board upon this subject, and this morning I referred to my remarks on that occasion. I got some figures relative to Baltimore and nearby cities at that time, and I particularly direct the attention of the Senator from Ohio [Mr. Burton] to this matter. These are the figures of Professor Lutz, of Princeton, who I should say was the hired advocate for those who oppose this measure. He says that New York City, in 1936, had a tax rate of \$27.14 per \$1,000. He estimates that if the State and municipal bonds are taxable, that rate will be increased by the tremendous sum of 87 cents. In other words, New York's tax rate would move up from \$27.14 per \$1,000 to \$28.01 per \$1,000, an infinitesimal figure to pay for tax adjustment.

It must be remembered in this controversy that the one who pays his taxes to the city of New York and the State of New York is the same individual who pays income taxes to the United States. What he is interested in is his total tax bill. From the standpoint of the individual this controversy revolves, I think, entirely around this question. Shall we permit this tremendous tax advantage, which I will outline and give a few examples of shortly, to those with large incomes? Shall we give these benefits to great estates, or shall we establish absolute tax justice in the United States without exemptions to any class?

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. CLARK of Missouri. I do not wish to interrupt the Senator's discourse, but if this is a convenient place, I should like to make a reference to a suggestion made

by the Senator from Tennessee a moment ago.

Mr. BROWN. I shall be glad to have the Senator from Missouri proceed.

Mr. CLARK of Missouri. As the Senator from Michigan knows, I have always been in favor of taxing income, not only from future issues of State and municipal bonds but also from the outstanding issues. I have always believed that the language of the sixteenth amendment, when it says, "incomes from whatever source derived," means exactly what it purports to mean. Therefore, I have always been in favor of taxing both the outstanding and the future issues; and I am more in favor of taxing both of them now, than I have ever been before, because with the taxation of Government securities, with the gradual increased taxing of income from other bonds and other investments, it seems to me that unless these hitherto exempt securities are taxed, it will mean unjust enrichment for the holders of the present securities, and an unfair and unearned premium on the State and municipal bonds to be issued in the future.

I call attention of the Senator to the fact that when the matter was submitted to the Finance Committee as to whether we should even go into the question of taxing outstanding bonds, whether we should even open the hearings to testimony on that subject, the vote, I think, was 15 to 1 in the committee against going into that question, and I was the only member of the committee present who voted in favor of going into that subject, and might have been one of two or three who might have voted in favor of a tax on outstanding securities.

Mr. BROWN. Let me say to the Senator from Missouri that that was one of the very few sessions of the Finance Committee which I missed. Had I been there I would have joined the Senator from Missouri.

Mr. CLARK of Missouri. Several members were absent. I think I was the only one present who voted for going into the question. Therefore, Mr. President, the sentiment of the committee on this subject having been overwhelmingly demonstrated, those of us who were in favor of taxing outstanding as well as future issues, in order to do the best we could to establish this principle, joined with the other members of the committee in reporting the amendment for taxing future issues of State and municipal bonds. It is not what we wanted, but it seems to be the best we have any prospect of getting. I prepared an amendment, as did the Senator from Wisconsin [Mr. LA FOLLETTE], to tax outstanding issues, but in view of the nature of the contest I believe it is better not to offer that amendment. If the Senator from Wisconsin offers his amendment, it is my intention to vote for it.

I cannot too strongly emphasize, Mr. President, that with rapidly rising taxes—and we all know that they will rise higher—and with the taxation of Government issues, if we permit this exemption to exist as to future State and municipal issues, we shall give to such issues a much greater premium than anybody has ever heretofore contemplated.

It affords a reservoir to which those with great fortunes who desire insurance against rising taxes and who do not want to play their part as citizens in the general effort of the United States, will resort.

Mr. BROWN. Does the Senator care to refer to the rather remarkable case of my immediate predecessor in the Senate, the late Senator Couzens?

Mr. CLARK of Missouri. Yes.

Mr. BROWN. Senator Couzens took a most high-minded attitude in regard to this subject. When he was elected to the Senate he came to the conclusion that, as an extremely wealthy man, he should have no interest in any corporate enterprise or any property interest which could conflict in the slightest degree with the interest of the United States. For that reason, and for none other, he invested the major part of his fortune in tax-exempt bonds, because they are the obligations of the governments of the States and municipalities. During his tenure in the Senate, from 1922 to 1936, he repeatedly urged upon the Senate the full taxation of Federal, State, and municipal obligations. That was an example of a wealthy man with a most high-minded attitude toward this question.

Mr. CLARK of Missouri. I believe that the attitude of Senator Couzens did him great credit.

Mr. BROWN. No man fought more valiantly for the amendment which I believe the Senator from Missouri offered, or at least supported, in 1933, for taxation of outstanding municipal bonds.

Mr. CLARK of Missouri. It was adopted in the Senate by nearly 20 votes.

Does not the Senator agree that, with the increase in taxes, the increase in all forms of income, and the taxation of Federal Government securities, the necessity for closing this reservoir of tax exemption is greater today than it ever was before? It seems to me that we are making a present, in the form of a premium, of unjust enrichment to the holders of State and municipal bonds.

Mr. BROWN. It seems to me that the argument made by the Senator from Tennessee is that because, in the past, we have not had the courage to face the question, and because these advantages have grown up and now exist, we should not do anything in this critical time to prevent that evil in the future.

Mr. CLARK of Missouri. One Senator told me this morning that a city in his State had recently issued some municipal bonds at a premium of 146 percent, or 46 percent above the face value of the bonds.

Mr. BROWN. I have some figures along that line.

Mr. CLARK of Missouri. That simply means that some rich persons are anxious to find insurance against increasing taxes. Under our present tax structure the only way anybody can find insurance against rising taxes and exemption from participation in the war effort with his money is by investment in State and municipal securities.

Mr. BROWN. At this point let me put in the RECORD a little of the testimony of the Secretary of the Treasury before the

Finance Committee. He cited the case of a typical wealthy citizen. It was not a single case; there are many others like it. I should like to have Senators understand this point. This is an actual case.

This individual has a net taxable income of \$975,000, just \$25,000 less than \$1,000,000. Of that income \$668,000 was wholly exempt because it was in the form of interest on State and municipal bonds. Because of the exemption, his tax would be \$243,000. If he had not owned tax-exempt bonds, his tax, instead of being \$243,000, would be \$832,000.

Let me repeat that. He had an income of \$975,000, of which \$668,000 was wholly exempt from Federal income taxation. His net income tax under the present bill would be \$243,000. If the bonds which he possessed were not tax-exempt, his tax would be \$832,000. In other words, he was more than half a million dollars better off by reason of tax exemption.

The Secretary of the Treasury says that under the bill the holder of 3-percent tax-exempt municipal bonds, who has a taxable income of \$100,000, has the equivalent in income from investment in fully taxable United States Steel bonds, yielding more than 17 percent.

Of course, \$100,000 is a tremendous income to the average man, to Senators, and to middle-class persons, but it is not an extraordinary income for a great many persons in the United States. A man with a taxable income of \$100,000, based upon 3-percent municipal securities, is as well off as he would be if he could buy a United States Steel Corporation bond bearing more than 17 percent interest.

There can be no real question about our constitutional right to remedy this tremendous evil and close this large loophole in our tax structure. I cannot understand how the legislative authority can fail to do its full duty with respect to this question.

Mr. LEE. Mr. President, will the Senator yield?

Mr. BROWN. I yield to the Senator from Oklahoma.

Mr. LEE. It has been argued that if we allow the income from State and municipal bonds to be taxed it will merely mean increasing the interest on such bonds. In testifying before the Senator's committee several years ago, Under Secretary Hanes testified that the increased interest which it would be necessary to add to such bonds would be from one-half to one-quarter of 1 percent.

Mr. BROWN. The Senator is correct.

Mr. LEE. I cited a case in my State of Oklahoma, involving school bonds. Schools have an appeal to all of us. The argument is made that we are laying an additional burden on school children. I took the case of the sale of \$1,000,000 worth of school bonds to finance a school. Suppose the \$1,000,000 worth of bonds were purchased by a man having an income of \$500,000. The school bonds would bear 3 percent interest. Every year the Government would lose on those bonds \$21,197.77 in income taxes. The additional interest, figured at the highest rate estimated by Under Secretary Hanes, would be \$3,750. Sub-



tracting the additional cost of interest from what the Government would lose each year, we have \$17,447.77, which the Government would lose every year on those school bonds. If the bonds were issued on a 20-year basis, multiplying that figure by 20 would give a figure of \$348,955.40, which would be lost on the issue of \$1,000,000 worth of school bonds if the income from those bonds were tax exempt. I submit that a good many school bells could be kept ringing for \$348,955.40.

Mr. BROWN. I thank the Senator from Oklahoma.

Mr. STEWART. Mr. President, will the Senator yield?

Mr. BROWN. I yield to the Senator from Tennessee.

Mr. STEWART. A few moments ago the Senator made an observation which made me think that perhaps the proof taken before the committee might indicate that investments of this character had drifted into the estates of wealthy persons. Is there any evidence which shows any sort of a break-down of the figures?

Mr. BROWN. Yes. That is a subject which I was just about to reach.

Mr. STEWART. Do life-insurance companies hold any appreciable amount of such securities?

Mr. BROWN. Yes; they hold a considerable quantity. My recollection is that, of \$20,000,000,000 tax-exempt securities, individuals hold \$7,800,000,000, insurance companies \$2,100,000,000, commercial banks \$3,700,000,000, and other corporations—I assume that means ordinary industrial corporations—\$500,000,000. There is in the hands of governments \$4,800,000,000 worth of State and local securities which, of course, are totally tax exempt.

I want to give the Senator the other figures, because he put his finger right on the subject matter which I was about to reach. These figures are just as important as the ones I have just now given. It is often stated that this evil is not a very great one. Professor Lutz, of Princeton, argued before the committee in effect that, while the logic was correct, it did not amount to very much.

In 1938—these figures are a little old, they are based upon the argument I made 2 years ago—in estates of from \$500,000 to \$1,000,000, approximately 10 percent of holdings were in wholly tax-exempt securities. When we consider estates of over \$5,000,000—and a good many estates are over that figure—we find that 44 percent were in the form of totally tax-exempt bonds. That is an amazing figure. It is fair to deduce from that figure that 44 percent of the income-producing property in the hands of every wealthy person in the United States, was in the form of wholly tax-exempt bonds. That is the figure for 1938.

Mr. DANAHER. Mr. President, will the Senator yield?

Mr. BROWN. I yield to my friend, the Senator from Connecticut.

Mr. DANAHER. Does the Senator from Michigan care to express an opinion as to what he thinks will happen to the market for all outstanding issues previously in the hands of taxpayers if

we agree to the amendment as reported by the Finance Committee?

Mr. BROWN. The question the Senator from Connecticut asks me is one which has always disturbed me very much. As with any other legislative matter, difficulties arise. The difficulties are not nearly as great as they would be if no legislation were enacted; but there is no question that as the outstanding securities become scarcer the demand for them will be greater, and consequently the value of the securities will rise, and an unconscionable profit will be obtained from them. However—and I think I am correct in this respect—the increment in the value of the bonds, that is, in the case of a bond bought at \$100 and sold at \$140, would be taxable as a capital gain. The expert from the Treasury Department who is here advises me that I am correct in that respect. Of course, that increment would be subject to Federal income taxation.

Mr. DANAHER. Mr. President, will the Senator yield there?

Mr. BROWN. I yield.

Mr. DANAHER. I have laid on the Senator's desk some language to which I should ask him to give his attention, to be inserted on page 34, line 5. Suppose after the word "foregoing", we were to insert the words "except such obligations which were acquired by the taxpayer after February 1, 1942." The section then would read—and I go back to the top of the page, line 1:

or (B) before January 1, 1943, by a State, Territory, or possession of the United States or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, except such obligations which were acquired by the taxpayer after February 1, 1942.

Let me point out to the Senator from Michigan that, were we to interpolate those words at that point, we should do this much: We should say that not only do we intend to tax the income from local securities issued after January 1, 1943, but, in addition to that, all outstanding securities which have been acquired since the arbitrary date of February 1, 1942.

That provision would apply not only to securities which are outstanding at the present time or which have been outstanding since February 1, 1942, but to all that hereafter may be traded in. Consequently, such a provision would prevent the enormous windfall to the holders of presently outstanding exempt securities.

Does the Senator understand my point?

Mr. BROWN. I do.

Mr. BARKLEY. Mr. President—

Mr. BROWN. Before yielding to the majority leader, I should like to make a brief comment, and I want the Senator from Connecticut to be certain that I follow his reasoning and purposes. The idea would be to prevent, by this provision, the making of sales and the obtaining of profits which would inure to holders of presently outstanding bonds by reason of the probable future increases in value of bonds now outstanding. Is that the point?

Mr. DANAHER. Precisely; and let me say to the Senator from Michigan that we have had testimony before the committee and on the floor of the Senate to the effect that approximately 60 percent of all tax-exempt securities are now in the hands of corporations, tax-exempt institutions and corporations. The very wealthy would be the ones to drain them out of the hands of institutions, such as charitable institutions, which today are tax-exempt. Not only would the towns, municipalities, counties, and States receive no benefit whatever, but neither should we be able to tax the increment in the hands of the sellers. Obviously, the point then is that all such securities traded in after February 1, 1942, no matter how old they are, no matter how long they had been outstanding, would, in the hands of the future taxpayer, be subject to taxation.

Mr. BROWN. I think—and I am addressing myself particularly to the chairman of the committee, whose subagent I am in this matter—that the Senator from Connecticut has added a very valuable suggestion relative to the amendment.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. BARKLEY. I should like to make this comment: The character and terms of the bonds are not changed in any respect by a purchase or transfer from a present owner to another owner. Undoubtedly, we can tax a capital gain which grows out of an increase in the value of a municipal bond; if it is bought at 80 and sold at par, we can tax the 20 percent gain.

Mr. BROWN. There is no doubt about that.

Mr. BARKLEY. Yes; there is no question about it.

Mr. BROWN. We can tax it as a capital gain.

Mr. BARKLEY. That is correct; we can tax it as a capital gain.

The question is whether we want to create two kinds of outstanding bonds, one kind made up of those which have not been transferred, but which still are in the hands of the original purchasers, and another kind made up of those which may have been transferred since February 1 of this year.

Personally, I doubt the wisdom of setting up two different categories of outstanding bonds; because by the tax on capital gains we can reach the increment about which the Senator from Connecticut has been talking. The interest rate does not change; the income from the bond itself does not change, no matter who holds it. When we can reach the increase or capital gain on the bond, if such a purchase would be induced by the nontaxability of the bond, it seems to me it is a very serious question whether we want to set up two kinds of outstanding bonds, and to say that the income from one shall be taxable, and that the income from the other shall not be taxable, depending upon whether Bill Jones or Tom Smith had to sell his, and Ike Stevenson bought it, since the last day of last February.

Mr. DANAHER. Mr. President, will the Senator yield to me?

Mr. BROWN. Before yielding to the Senator from Connecticut I want to answer the Senator from Kentucky for a moment. Perhaps the Senator from Connecticut has the same idea which I have.

Mr. DANAHER. I, too, want to answer the Senator from Kentucky.

Mr. BROWN. The Senator from Kentucky would be correct, in my judgment, if the increment or increase in the value of the bonds were taxed as income. However, since it is taxable as a capital gain, not as income, the effect would be this, if the Senator from Connecticut will pardon me for a moment, in those cases in which the individual's net tax rate, let us call it, for want of a better term, were below or equal to the rate on capital gains—and it is my recollection that the rate on capital gains is 25 percent, is it not? I ask the Senator from Georgia if the rate on capital gains is 25 percent.

Mr. GEORGE. Yes; it is 25 percent.

Mr. BROWN. In cases in which the individual's net tax rate is at or below that rate, the argument of the Senator from Kentucky would be correct; but in cases in which it is above 25 percent, the argument of the Senator from Kentucky would not be true—

Mr. BARKLEY. Of course, that is true.

Mr. BROWN. That is the evil the Senator from Connecticut is trying to meet. In the case of holders of municipal bonds, in my estimation a great majority of them will be taxed at rates very much above 25 percent.

Mr. BARKLEY. Of course, the same statement is true with respect to any kind of property, where there is an exchange and a capital gain results. It depends on the bracket in which the taxpayer falls.

Mr. BROWN. That is true, but I just fear that without the amendment of the Senator from Connecticut the increase in value which Senators like the Senator from Montana, the Senator from Tennessee, and the Senator from New Mexico fear would result, would come about. I have no authority whatsoever to accept the amendment, that being up to the Senator from Georgia [Mr. GEORGE], but it seems to me it has sufficient merit to warrant taking it to conference and endeavoring to work it out. It does strike at a possible evil which would arise from the enactment of the committee amendment without the inclusion of the amendment of the Senator from Connecticut.

Mr. DANAHER. Mr. President, will the Senator yield further?

Mr. BROWN. I yield.

Mr. DANAHER. Let me point out further to the Senator from Michigan that under the pending bill, and the rates we are providing, if an individual has an income, let us say, of a million dollars, we will take approximately \$900,000 of that income. What are we to tell the people of this country with reference to that man's going out and bidding up tax-exempt securities, wherever he can do so? While it is true that the present holder would pay a capital-gains tax on the gain which inures to him from the increased price of the bond, the amendment would

enable us from now on to tax the income from that bond in the hands of its new owner.

Mr. BROWN. I will support the Senator's argument by pointing out that in the case which Secretary Morgenthau gave us, of the man with the income of \$975,000, his rate would be very close to 90 percent. Of course, he would gain the advantage between the 25-percent-capital-gain rate and the approximately 90 percent personal-income-tax rate.

Mr. BARKLEY. How many of these \$900,000 men are there in this country compared with the holders of five, ten, and fifteen thousand dollars worth of local bonds, held by women, and trustees for small estates? It is all right to hold up a horrible example of some one with a million dollars who can invest it in municipal bonds; it is an entirely different matter to take a census of the small people who hold these municipal bonds, the income from which is the only income they have with which to sustain themselves.

I appreciated the illustration brought to the committee by the Secretary of the Treasury, but I do not know whether there is another one in the United States, out of all the 130,000,000 people, who fits into the pattern of that horrible example, by comparison with all the hundreds of thousands of others who hold only a small amount of municipal bonds, and who would be affected by what we do here.

Mr. BROWN. Let me remind the Senator that there are a great many people in the United States who are worth \$5,000,000, and if 44 percent of their assets are in the form of totally tax-exempt bonds, a considerable tax income would be lost without the amendment presented by the Senator from Connecticut.

Mr. BARKLEY. If the amendment is to be accepted by the chairman of the committee, the word "which" should be changed to "as."

Mr. BROWN. Yes, I thank the Senator.

Mr. MAYBANK. Mr. President, I should like to ask the Senator how the horrible case he cited would be affected by the language of the committee amendment without the amendment of the Senator from Connecticut?

Mr. BROWN. In the case I have cited, the amendment suggested by the Senator from Wisconsin would take care of it. With respect to the amendment suggested by the Senator from Connecticut to the amendment of the committee, there would be a considerable gain to the Federal Treasury, but the committee amendment could not cover that.

The point in bringing that out is that but for our failure in 1918, when the House took this matter up, and in 1933, when the Senate passed a measure of this kind, this evil would not have existed. What I am trying to do, in furthering the committee amendment, is to prevent a situation of this kind from occurring in the future, when it will be greatly magnified because of the greatly increased Federal income taxes which will be levied upon our people.

Mr. McFARLAND. Will the Senator yield?

Mr. BROWN. I yield.

Mr. McFARLAND. What effect would the amendment have on refunding bonds?

Mr. BROWN. The statute would cover that. All bonds that are issued prior to January 1, 1943, to refund an obligation maturing prior to June 30—I believe the date is—would be subject to the present law, and not subject to tax. In the case of a refunding obligation issued after December 31, 1942, such obligation will generally be exempt from taxation until the maturity date of the obligation refunded. Let me say to the Senator from Arizona that I was not familiar with the date and I first believed that we ought to give a little more time to the municipalities. In other words, I believe it would be wise to make the date December 31, 1943, or January 1, 1944. I think it would be in the interest of justice to do so.

Mr. LEE. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. LEE. I wish to comment on the amendment proposed by the Senator from Connecticut. I personally belong to a group which favors taxing incomes from whatever source derived. I think that when the people ratified the sixteenth amendment, authorizing the Congress to levy and collect taxes on income from whatever source derived, they thought they were doing just what the amendment provided. Therefore, I think we should tax income derived from outstanding bonds. But if we cannot do that, then the next best thing, I believe, would be to accept the amendment of the Senator from Connecticut, which is designed to prevent the sudden and unreasonable rise in prices of outstanding tax-exempt securities, because there is no doubt that the people with money who desire to escape taxation are going to start bidding against each other and buy these securities at whatever price they will have to pay for an exemption.

It was argued by the Senator from Kentucky, the able majority leader, that it is only a small evil. However, I submit that when we are dealing with fundamental principles, the size of the evil to be corrected should not be an argument in its defense. We are trying to lay down the fundamental principle that there shall be no special privilege to any special class. An exemption in taxation is a special privilege to a special class, and that is the rich class. Poor people cannot buy bonds. They do not have the money with which to buy them. The average person can buy a very limited amount of them.

A few moments ago the Senator from Michigan cited an example of a man with an income of \$1,000,000. To him a 3-percent bond, if it is tax exempt, is worth more than a 17-percent bond on which he has to pay a tax. In other words, the tax-exempt privilege is worth more than 14 percent interest to a rich man. How much is it worth to a man with an income of \$5,000?

Mr. BROWN. Practically nothing.

Mr. LEE. It is worth two-tenths of 1 percent to a man with an income of \$5,000.

The principle of exemption from taxation is a special privilege to a special



class. I think we now have an opportunity to wipe it out for all time, and I hope we will do so and not leave a single vestige of it for the next generation to have to fight.

Mr. DANAHER. Will the Senator yield?

Mr. BROWN. I thank the Senator from Oklahoma for his statement, and I yield to the Senator from Connecticut.

Mr. DANAHER. Let me point out to the Senator from Oklahoma what a long stride forward it would be if we should adopt an amendment substantially in the language I have suggested to the Senator from Michigan.

In the first place we have the President asking that all income from wages and salaries be reduced to \$25,000, after taxes. Remember that that point is stressed—"after taxes." That means that an individual is entitled to earn an income of approximately \$55,000 before taxes. So that a person does not have to have a \$100,000 income to be interested in the question we are considering. All he has to have is an income of \$30,000 over and above the \$25,000 ceiling, and he can well bid on possibly \$15,000,000,000 of tax-exempt securities in order to acquire some of them, and, acquiring tax-exempt securities, he will not have to lose anything on account of the limitation placed under the presidential order.

Take another aspect of the matter. The institutions, charitable trusts, the banks, or other holding units which today have approximately 60 percent, or about \$12,000,000,000, of these tax-exempt securities, can create a reservoir into which there can be diverted vast sums of money seeking tax exemption.

The reason, let me say to the Senator from Oklahoma [Mr. LEE] for taking the arbitrary date of February 1, 1942, is that it takes account of the argument that it would be inequitable to tax the income in the hands of the original holders, who had acquired the securities in good faith, relying upon a then apparent tax exemption. That equity, I think, is entitled to be regarded. I think we ought in good conscience to regard it. But from February 1, 1942, forward everyone in this country has been put on notice that these securities were to be considered as a possible basis for tax in the pending tax bill. The Secretary of the Treasury announced his intention of doing so, and he went before the House Ways and Means Committee and so recommended. As a matter of fact, issues have been traded in in the open market—of course, they are all over-the-counter securities—under advertisements which carry the words "at present tax-exempt." So it was that this market has enjoyed the prospective speculative advantage of tax exemption, which this Congress would now guarantee, if we do not adopt some such language as that contained in the amendment and reach the matter in that way.

Mr. BROWN. I thank the Senator from Connecticut.

Mr. STEWART. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. STEWART. I should like to ask the Senator from Michigan a question. Before we drifted into the debate on out-

standing securities, we were discussing the committee amendment, which provides for taxation of future bond issues, as I understand.

Mr. BROWN. Yes.

Mr. STEWART. I did not understand the Senator to make a statement as to how much revenue the amendment which is actually under discussion would produce annually.

Mr. BROWN. I trust the Senator from Tennessee and the Senate will realize how difficult it is to give an estimate on that subject. Because of our financial stringency, the amount of municipal bonds being issued at the present time is very much less than ordinary. When this matter was before the special committee in 1939 my recollection is—and I think I am correct—that the first year it would be a relatively small amount and that it would go up gradually to more than \$300,000,000 per year when the full effect of taxes then imposed was effective on municipal bond interest. Various estimates have been made at the present time. I think the Senator from Ohio [Mr. BURTON] said something like \$5,000,000. The revenue, it must be conceded, is not highly important. It is a question of tax justice, and it is a question which is important and grows in importance through the years. I say to the Senate now that in the payment of the Federal debt, which Senators know will extend far, far into the future—we do not know how far—the elimination now of this tax exemption will be a tremendous factor in aid to the Treasury of the United States.

Mr. STEWART. The full \$300,000,000 which the Senator referred to would take into consideration the taxation on the income of practically all outstanding bonds when they should be reached?

Mr. BROWN. Yes.

Mr. WHEELER. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. WHEELER. My own view is that if future bond issues are to be taxed we ought to tax bonds issued in the past as well. So far as I am concerned, I should be glad to vote to place a tax upon tax-exempt bonds.

It has been said that we owe a moral obligation not to tax past issues of such bonds. I do not agree with that statement. Now, when we are in an emergency such as that which exists today, which everyone recognizes, there is no reason in the world why the United States Government should not tax bonds which are now exempt from taxation, when they are now held by many of the large corporations and by rich people of the country for the sole purpose of avoiding taxation. That is where the iniquity lies. Why should bonds which are to be issued in the future be picked out for taxation, and those which have hitherto been issued remain exempt? Such discrimination is beyond my comprehension.

Mr. BROWN. The sooner we start the better.

Mr. WHEELER. This is the opportunity to start such taxation, at a time when we need money from taxes as badly as we do today. This is one way to get at the man who is avoiding payment of taxes at the present time. We are in-

creasing taxes on the poor man. We are placing a tax upon everyone who has an income of more than six or seven hundred dollars a year. Under the circumstances why should we stand here and argue that as a moral proposition we should not tax a man who owns a billion dollars' worth of tax-exempt securities, or half a billion dollars worth, or a million dollars worth? I cannot comprehend such an argument. I simply say that when we are increasing the tax on the little fellow we should not hesitate to tax the big fellow who holds tax-exempt securities.

Mr. BROWN. Mr. President, it seems to me that the Senator from Montana, to use a trite illustration, strains at a gnat and swallows a camel. The evil of presently outstanding tax-exempt bonds will dwindle year by year, and probably in 20 to 30 years will be entirely gone. But in using that as an argument for voting against this proposition, which seems to me to be a totally illogical argument, the Senator overlooks the fact that through the years to come these bonds will more and more come into the taxable field, and that over the years the big thing to do is to tax the future issues.

Mr. HATCH. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. HATCH. The Senator from Montana [Mr. WHEELER] has just been called from the Chamber. I had just been talking with the Senator from Montana about this very proposition before he made his inquiry of the Senator from Michigan. I am quite sure the Senator from Montana did not mean that what he said should be used as an argument against the contention made by the Senator from Michigan.

Mr. BROWN. I am glad the Senator from New Mexico feels that way.

Mr. HATCH. I am quite sure that is correct. He desired to add to, and not to take from.

Mr. BROWN. I thank the Senator from New Mexico.

Mr. STEWART. Mr. President, will the Senator yield to me for an observation?

Mr. GEORGE rose.

Mr. BROWN. I apologize to Senators; but I am very tired from the efforts of the past 3 weeks. I have been on my feet for a long time. I have two points to make; but I yield first to the Senator from Tennessee. Then I shall yield to the Senator from Georgia.

Mr. STEWART. Mr. President, much has been said about the taxation of outstanding securities; and an effort has been made to couple that idea with the taxation of future issues. I am unable to see the equities of the arguments which have been made in that direction, for this reason. I wish to make this observation, and then I shall not disturb the Senator further.

During the past 10 years, especially since the Roosevelt administration began, there has been activity throughout the entire Nation, encouraged by the Government itself in the beginning, after the Works Progress Administration was established, looking toward the erection of public buildings and the issuance of bonds for that purpose, for the reason

that it was desirable to create jobs or work for the unemployed throughout the country. Practically every village and hamlet which could do so under any sort of authority of law issued bonds for the purpose of building gymnasiums, school-houses, courthouses, sewer systems, streets, and what not. Practically every small village or hamlet today has outstanding bonds. I have seen a great many of such bonds, as have other Senators. Many of them have printed on the face of them these words, in substance:

This bond is exempt from Federal, State, municipal, or county tax.

Even if they do not have those words printed on the face of them, it has always been the custom that the Federal Government would not undertake to tax the securities of State, municipal, or county governments.

That is the custom which has grown up. Regardless of how evil it may be for us to permit the condition to exist, and to permit the wealth of the country to drift into tax-exempt securities, nevertheless, it is a condition with which we have to deal.

If we undertake to enact legislation to tax outstanding bonds, the result will not be to force those who have a vast amount of wealth invested in such securities to pay the tax. In my opinion the result will be that the city, the county, or the State which issues the bonds will have to increase the tax rate to meet the payment of the income tax levied upon the holders of such bonds, for the reason that the bond is a contract between the holder thereof and the municipality which issues it. The municipality, county, or State could be forced to levy taxes upon the people who live and own property within its jurisdiction, to pay the amount of tax which might be levied by such an amendment. So the tax would not be paid by the man who has a vast amount of wealth, and who comes within the category mentioned by the Senator from Michigan. He would not be the one who would pay. In the end the burden would simply be dumped back upon the taxpayers who live within the various jurisdictions.

It might be wise to stop this practice in the future, but I think it would be highly inequitable and improper for the Federal Government itself to set a precedent by placing a tax upon bonds which have been outstanding for 5, 10, 15, or 20 years. The question of future issues is an entirely different question.

Mr. LEE. Mr. President, I should like to ask the Senator from Tennessee a question.

Mr. BROWN. Just a moment.

I wish the Senator from Tennessee to know that our special committee, which was created by the Senate, came to the conclusion which the Senator from Tennessee expresses. I have not changed my own opinion that it would be inequitable to tax the income from presently outstanding State or municipal bonds. I am ready to give consideration to the suggestion of the Senator from Connecticut [Mr. DANAHY], which would reach the inequitable rise in the value

of outstanding securities which would be occasioned by the passage of the bill and the consequent steady decline in the amount of outstanding tax-free municipal bonds. I believe that the Senator from Connecticut has made a valuable suggestion.

Mr. LEE. Mr. President, will the Senator yield?

Mr. BROWN. Does the Senator from Georgia still wish to have me yield?

Mr. GEORGE. Yes.

Mr. BROWN. I yield first to the Senator from Georgia.

Mr. GEORGE. The Senator from Tennessee and other Senators have called attention to the moral issue which is involved. Undoubtedly municipal and State bonds have been sold and purchased in the honest belief that the income from such bonds was not subject to taxation.

However, there is another consideration which it seems to me makes it inadvisable to consider the amendment offered by the Senator from Connecticut [Mr. DANAHY]. I do not believe he is present.

There can be no possible reciprocity between the States and the Federal Government with respect to any bonds which the Federal Government has already issued and sold. Since March of last year they have been subject to all Federal taxes; but Federal bonds are not subject to State taxes.

Mr. BROWN. New issues are subject to Federal taxes, but not issues theretofore outstanding.

Mr. GEORGE. Outstanding issues could not be subject to State taxes for the reason that, as I recall, they carry the provision that they are exempt from State taxes. Therefore the Federal Government itself could not subject to State taxation its own securities heretofore issued and outstanding.

Mr. BROWN. A constitutional question would be involved.

Mr. GEORGE. Yes; because of the fifth amendment, it seems to me, that it could not do so. It therefore seems to me that all the reasons, and certain legal objections, reinforce the considerations which persuaded the committee in the first instance to undertake to tax only future issues. That seems to me to be the sounder position to take.

I know that what the Senator from Connecticut [Mr. DANAHY] and other Senators have pointed out is likely to occur. If we should tax future issues it would ultimately give to the holders of outstanding bonds a certain increase in value. There is not much doubt about that. I should like to see the condition reached, but I do not believe it can be done in good faith, because if we are to tax State bonds we ought to be able to say to the States, "You may tax all our bonds." I do not see how we can take the position that we are to protect Federal bonds against State taxes. In other words, the principle ought to be kept perfectly consistent. We can do it so far as future issues are concerned. On the whole that seems to me to be the better view.

Mr. BROWN. I thank the Senator for his observations.

Mr. ROSIER. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. ROSIER. I should like to call attention to the principle behind this question. I do not wish to debate the question, because it has been thoroughly discussed.

We built up our institutions and made our public improvements through the taxing and bonding power of the States and municipalities. The proposal under discussion is a direct strike at the financial economy of the States and municipalities.

The point I wish to make is that for many years the Federal Government has been gradually encroaching upon and preempting to itself all the taxable sources which heretofore have met the expenses of the States. If that tendency continues, the States will come to the Federal Government and demand support for many of their institutions.

With all the encroachments in taxation upon the States and municipalities we cannot continue to carry on our State school systems, our public roads systems, and our other public improvements when the Federal Government comes in and takes charge of all the sources of revenue. If we continually drive, by way of Federal taxation, to take over the sources of revenue which the States have heretofore had for building public institutions, what will be the conclusion? I am putting the question squarely before the Senate. We shall have to give a great deal of Federal aid to the States for the activities which they have heretofore carried on for themselves.

That is something to keep in mind in all of this drive in the matter of Federal taxation. If you take all the revenue, you must support our institutions. That is the point I am making.

Mr. BROWN. I thank the Senator.

Mr. LEE. Mr. President, will the Senator yield?

Mr. BROWN. I yield to the Senator from Oklahoma.

Mr. LEE. If there has been one thing which seems to have been decided by the courts it is that a tax on income is not a tax on the source of the income. A tax on a man's salary from whatever source derived is a tax on that man and on his income, not a tax on the source from which he derives his income. Therefore, I cannot see why the Federal Government has not a right to tax a man's income from whatever source derived, without it being argued that we are taxing the State and local bonds.

In support of that point I wish to read the following words of Associate Justice Stone, of the Supreme Court:

The present tax is a non-discriminatory tax on income applied to salaries at a specified rate. It is not in form or substance a tax on the Home Owners' Loan Corporation or its property or income, nor is it paid by the Corporation or the Government from their funds. It is lodged upon income which becomes the property of the taxpayer when received as compensation for his services, and the tax lodged upon the privilege of receiving it is paid from his private funds, and not from the funds of the Government either directly or indirectly. The theory which once won a qualified approval, that



a tax on income is legally or economically a tax on its source, is no longer tenable.

Therefore, Mr. President, I maintain that if we tax a man's income from State and local bonds we are not taxing the State and local bonds, but we are taxing that man's income. When he puts the money in his pocket it is commingled with any other funds he may have. It becomes part of his funds, his money; and we are taxing that man.

I think that point has been well established; and there is no use in arguing that the Federal Government is taxing the State or the State's bonds or taxing the municipality or the municipality's bonds.

Mr. BROWN. I thank the Senator.

Mr. AUSTIN. Mr. President—

Mr. BROWN. Mr. President, I shall ask Senators to allow me to make two points which I can make in about 10 minutes. I have been on my feet a long time, and have been very generous in yielding. I should like to proceed now. Undoubtedly the able Senator from Vermont has been lying low a long time, ready to argue on the proposition; but he will not be the only one to argue on the subject; so I ask the Senator to permit me to continue. Tomorrow, when perhaps I shall not be as tired as I am now, I shall endeavor to answer the Senator's questions.

I notice that the junior Senator from Ohio [Mr. BURTON] was on his feet before I made my announcement. I should be glad to yield to him if he desires to ask a question; but I trust that he will not make a speech or propound a long question.

Mr. BURTON. Mr. President, if I may have the permission of the Senator from Michigan, I wish to add in respect to the point made and the quotation read by the junior Senator from Oklahoma [Mr. LEE] a reference to about five lines from the language of Chief Justice Hughes, language which makes a distinction which the Senator probably did not make. The language appears in the decision in the case of *James v. Dravo Contracting Company* (302 U. S. 134), a case decided in 1937.

Chief Justice Hughes said:

There is no ineluctable logic—

Which means no insurmountable logic; I did not know what the word meant, and I had to look it up—

which makes the doctrine of immunity with respect to Government bonds applicable to the earnings of an independent contractor rendering services to the Government. That doctrine recognizes the direct effect of a tax which "would operate on the power to borrow before it is exercised."

Chief Justice Hughes then proceeds to quote from the *Pollock* case, saying that when we tax the salary of an individual we are taxing the individual, but when we tax the interest on a bond, we are taxing the borrower, because it is the borrower who will have to pay increased interest on his bonds the next time he tries to borrow.

Mr. BROWN. Mr. President, I wholly and totally disagree with the Senator from Ohio and with the expression by the former Chief Justice of the United

States. The tax is not upon the borrower. The tax is upon the man who loans the money, the one who holds the bonds.

I have two propositions to discuss, and then I shall be through. I was about to point out the infinitesimal rise in the tax burden on the cities.

For the city of New York, which in 1936 had a tax rate of \$27.14 a thousand, it is estimated there would be an increase of 87 cents a thousand, which is infinitesimal. That is the estimate of Mr. Lutz, the economist for the State's attorney general, who was opposing this proposition.

The Treasury experts estimated that upon a \$27.14-tax rate the increase would be 23 cents a thousand; in other words, at the highest, the New York City tax rate would rise from \$27.14 to \$27.37 per thousand, a rise of 23 cents.

For the city of Baltimore, which in 1936 had a tax rate of \$21.69, Professor Lutz estimated that the increase would be 50 cents a thousand, or that, instead of a rate of \$21.69, the rate would be \$22.19. The Treasury estimated that the highest increase would be 17 cents a thousand, or from \$21.69 to \$21.86.

Mr. President, what would the States receive? No one has yet mentioned the fact that this proposition would be a reciprocal one, that when we subject the obligations of municipalities, States, counties, and cities to Federal taxation we submit all Federal bonds hereafter issued to the taxing power of the States.

Mr. BONE. That is not in the bill; is it?

Mr. BROWN. Yes; it is in the bill—that we submit to income taxation on the part of the State governments all the Federal obligations.

Who would come out best on that proposition? We notice that according to the testimony of the attorney for the association opposed to the bill, which has carried on the fight from the beginning, about 50 cents on a \$20 property tax rate would be the increased burden to the municipalities; and we should subject to State taxation the income from over \$90,000,000,000 of Federal bonds to be issued in the immediate future.

Mr. WHEELER. Mr. President, will the Senator yield to me for just a moment?

Mr. BROWN. I yield.

Mr. WHEELER. I simply wish to say that I was extremely doubtful about the matter, and I thought I should vote against the committee amendment; but the argument the Senator has made in showing how little the amendment would mean to the cities has convinced me that I was wrong in my viewpoint, and I shall vote with the committee on the amendment.

Mr. BROWN. I thank the Senator from Montana. I hope many other Senators will follow his splendid example.

Mr. President, when we subject all future issues of Federal bonds to State income taxation, and when it is remembered that 33 States and the District of Columbia now have income taxation, and that undoubtedly many more will have income taxation when this proposition is placed before the States of the Union, we

find that there will be very little difference between the two.

Twenty billion dollars is a pretty fair estimate of the issues of States and municipalities in the next 20 years. Let me ask the Senator from Georgia, since it has slipped my mind, what is the debt limit?

Mr. GEORGE. The bonded debt limit?

Mr. BROWN. Yes.

Mr. GEORGE. We did not take the lid off, but I have forgotten exactly how far we did raise it.

Mr. BROWN. I remember the Senator from Michigan suggested a couple of years ago that it be raised to \$65,000,000,000. My recollection is that it is now \$125,000,000,000.

Mr. GEORGE. I believe it is \$125,000,000,000.

Mr. BROWN. No one doubts at the present time that that \$125,000,000,000 of indebtedness will have to be issued before we pay for the war, and the difference between the \$90,000,000,000 now outstanding and what is added to it in the future will be subjected to State taxation.

Now my final point. I know the attitude of the representatives of the States, cities, counties, and school districts. They are against the amendment. They have their problem, and it is a difficult one. All those who are charged with the responsibility for the levying of taxes at the present hour have a most difficult task.

The tremendous labors of the Committee on Ways and Means and of the Committee on Finance on the pending tax bill for the past 8 or 9 months demonstrate that very clearly. But I think that in this matter we have to look at the greater public good. I do not look at this entirely as a matter of revenue raising. It is a matter of tax justice as between taxpayers, and in my judgment every man who votes against the amendment today will be charged—I do not say justly—with having voted to continue a tremendous advantage for men in the higher income-tax brackets. The Senator from Oklahoma has repeatedly urged that point. It is true that our present tax system has in it a tremendous loophole. This, in my judgment, is the greatest of all. We want to close it now for all future issues of municipal bonds.

Mr. President, there has been before the special committee of which I am chairman and before the Committee on Finance of the Senate, no opposition of substance to this proposal, other than from the Association of State Attorneys General, represented by some of the ablest and most high-powered advocates I have ever encountered. That is where the opposition comes from.

How about the American people? Some time ago the Gallup poll tested out this question, and the returns in favor of Federal taxation of future issues of municipal bonds and taxation by the States of future issues of Federal bonds were overwhelmingly in favor of the proposal.

Seven hundred editorials were gathered by the Department of Justice upon this subject matter. Six hundred of those 700 editorials were strongly in favor

of the taxation of future issues of State bonds by the Government, and in favor of the future taxation of Federal bonds by the State governments.

Fortune magazine, in a recent issue, found that over 77 percent of business executives—a great many of whom would be the chief beneficiaries of the existing order as against the proposal we have before us—are in favor of the elimination of this tremendous loophole in our tax structure for the future.

I close, Mr. President, by reminding the Senate that many of the Secretaries of the Treasury of later years, including Ogden Mills, and the present Secretary, urged this reform; that the last four Presidents, including the present President, sent messages to the Congress in favor of the change; that the minority party, acting on the Frank report made to its 1940 convention, went on record as being strongly in favor of the elimination of any further issues of tax-exempt bonds. The Democratic Party, in convention assembled, under the leadership of the majority leader, the able Senator from Kentucky, who was chairman of the convention, demanded in its platform in solemn language that there be no further issues of tax-exempt bonds.

If the minority adheres to the platform upon which the Republican Party went to the American people, it cannot do anything but vote for the pending amendment. If we of the majority, all of us here, who ran upon the platform of the Democratic Party, want to stand by what I consider to be a solemn and binding obligation, we must vote for the amendment, because we told the American people that if we were given command of the Government of the United States we would once and for all close to a great many people in the United States this means of escape from fair and reasonable taxation.

Mr. President, I sincerely trust that the Finance Committee amendment, which was adopted deliberately and after careful consideration, will be adopted by the Senate.

#### AMENDMENT OF THE ACT TO PREVENT PERNICIOUS POLITICAL ACTIVITIES

The PRESIDING OFFICER (Mr. HILL in the chair) laid before the Senate the amendments of the House of Representatives to the bill (S. 2471) to amend the act entitled "An act to prevent pernicious political activities," approved August 2, 1939, as amended, with respect to its application to officers and employees of educational, religious, eleemosynary, philanthropic, and cultural institutions, establishments, and agencies, commonly known as the Hatch Act.

Mr. HATCH. Mr. President, on behalf of the chairman of the Committee on Privileges and Elections [Mr. GREEN] I move that the Senate disagree to the amendments of the House, request a conference with the House on the disagreeing votes of the two Houses thereon, and that the Chair appoint the conferees on the part of the Senate.

Mr. BROWN. Mr. President, the bill to which the Senator from New Mexico has referred was sponsored by me. Let me ask the Senator from New Mexico if his purpose in requesting that the bill be

sent to conference is to take up the matter of an amendment offered on the floor of the House by which newspaper editors were granted certain immunity from the provisions of the law?

Mr. HATCH. That is exactly my purpose. I have nothing else in mind.

Mr. BROWN. I thank the Senator, and state that I am perfectly satisfied to have the bill go to conference.

Mr. McNARY. Mr. President, will the Senator yield?

Mr. HATCH. I yield.

Mr. McNARY. I had been informed earlier by the able Senator from Michigan that a motion would be made to accept the House amendments, thereby ending the controversy.

Mr. BROWN. If the Senator will permit, I did so state to the Senator from Oregon, but the Senator from New Mexico, whose act—the Hatch Act—is affected by this amendment, spoke to me and said he would like to have a further opportunity to go into the question of an amendment offered by Representative CREAL, of Kentucky, and adopted by the House. I wish to say to the Senator that I am perfectly willing to follow the course suggested by my distinguished friend the Senator from New Mexico.

Mr. McNARY. In view of that statement, I have no objection.

The PRESIDING OFFICER. The question is on the motion of the Senator from New Mexico [Mr. HATCH].

The motion was agreed to; and the Presiding Officer appointed Mr. GEORGE, Mr. HATCH, and Mr. AUSTIN conferees on the part of the Senate.

#### ASSIGNMENT OF CIRCUIT JUDGES

The PRESIDING OFFICER (Mr. HILL in the chair) laid before the Senate the amendment of the House of Representatives to the bill (S. 2655) to amend the Judicial Code to authorize the Chief Justice of the United States to assign circuit judges to temporary duty in circuits other than their own, which was, on page 1, line 9, after the word "shall", to insert "upon the request of the senior district judge."

Mr. DANAHER. I move that the Senate disagree to the amendment of the House, request a conference with the House on the disagreeing votes of the two Houses thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. O'MAHONEY, Mr. CONNALLY, and Mr. DANAHER conferees on the part of the Senate.

#### EXECUTIVE SESSION

Mr. BARKLEY. Mr. President, I move that the Senate proceed to the consideration of executive business.

The motion was agreed to; and the Senate proceeded to the consideration of executive business.

#### EXECUTIVE REPORTS OF COMMITTEES

The following favorable reports of nominations were submitted:

By Mr. CONNALLY, from the Committee on Foreign Relations:

George Wadsworth, of New York, a Foreign Service officer of class 1, to act as diplomatic agent and consul general near the Government of the Republic of Lebanon, at Beirut,

and near the Government of the Republic of Syria, at Damascus.

By Mr. WALSH, from the Committee on Naval Affairs:

Sundry officers for promotion (temporary service) in the Marine Corps:

Rear Admiral John H. Towers to be a vice admiral in the Navy, for temporary service, to rank from the sixth day of October 1942; and

Rear Admiral John S. McCain to be Chief of the Bureau of Aeronautics in the Department of the Navy, with the rank of rear admiral, for a term of 4 years, effective upon the relinquishment of that office by Rear Admiral John H. Towers.

By Mr. McKELLAR, from the Committee on Post Offices and Post Roads:

Sundry postmasters.

The PRESIDING OFFICER (Mr. HILL in the chair). If there be no further reports of committees, the clerk will state the nominations on the calendar.

#### THE JUDICIARY

The legislative clerk read the nomination of John A. Matthewman, of Hawaii, to be fifth judge of the first circuit, Territory of Hawaii.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of Harold E. Stafford, of Hawaii, to be third judge of the first circuit, Territory of Hawaii.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of Anton J. Lukaszewicz to be United States marshal for the eastern district of Wisconsin.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

#### POSTMASTERS

The legislative clerk proceeded to read sundry nominations of postmasters.

Mr. McKELLAR. I ask that the nominations of postmasters be confirmed en bloc and that the President be immediately notified.

The PRESIDING OFFICER. Without objection, the nominations of postmasters are confirmed en bloc, and, without objection, the President will be notified of all nominations this day confirmed.

That completes the calendar.

#### RECESS

Mr. BARKLEY. As in legislative session, I move that the Senate take a recess until 11 o'clock a. m. tomorrow.

The motion was agreed to; and (at 4 o'clock and 54 minutes p. m.) the Senate took a recess until tomorrow, Thursday, October 8, 1942, at 11 o'clock a. m.

#### CONFIRMATIONS

Executive nominations confirmed by the Senate October 7 (legislative day of October 5), 1942:

#### THE JUDICIARY

##### CIRCUIT COURTS, TERRITORY OF HAWAII

John A. Matthewman, to be fifth judge of the First Circuit, Circuit Courts, Territory of Hawaii.

Harold E. Stafford, to be third judge of the First Circuit, Circuit Courts, Territory of Hawaii.

##### UNITED STATES MARSHAL

Anton J. Lukaszewicz, to be United States marshal, for the eastern district of Wisconsin.



## POSTMASTERS

## ARIZONA

Fagan B. Richardson, Ash Flat.  
George C. Wright, Clifton.  
John E. Wagner, Jerome.

## ARKANSAS

Otis H. Parham, Bald Knob.  
Thomas B. Gatling, Bearden.  
W. Ernest King, Clarksville.  
J. Dot Fortenberry, Imboden.  
James T. Alderson, Malvern.  
Guy Stephenson, Monticello.  
Claude M. Farish, Morrilton.  
James H. Nobles, Parkdale.

## MASSACHUSETTS

Charles H. McGrath, Randolph.

## NEW MEXICO

Josephine Lorenzo, Dawson.

## HOUSE OF REPRESENTATIVES

WEDNESDAY, OCTOBER 7, 1942

The House met at 12 o'clock noon.

The Chaplain, Rev. James Shera Montgomery, D. D., offered the following prayer:

O Thou eternal God, what manner of love Thou hast bestowed upon us that we should be called Thy children. As Thou hast loved us, so teach us to love Thee. This day some will go forth on land, sea, and air, burdened with heavy missions and responsibilities; some fathers will be bowed down with unspeakable cares; some mothers, dismayed and wondering, will cry out: "Dear Lord, what of the night?" As Gethsemane lost its sting through prayer, blessed Master, Thou who didst walk with the questioning disciples to Emmaus, bring them to a restful knowledge that their sufficiency is in Thee.

O Thou who didst unveil the face of that One who seemeth human and divine and revealed all that is truest in a God of infinite love, give us beauty for ashes and the garment of praise for heaviness. Fill our hearts with holy duties until there shall be small room for unholy doubts. Grant that our faith may not be displaced or wasted by part misunderstanding, depression, or inaction, but that we may be enabled to strain upward in the might and inspiration of a power which bulwarks the throne of our beings with truth and good will to all men. The Lord be praised for this thoroughfare which closes on the twilight and opens on the dawn. In the name of our glorified Saviour. Amen.

The Journal of the proceedings of yesterday was read and approved.

## EXTENSION OF REMARKS

Mr. ARENDS. Mr. Speaker, I ask unanimous consent that my colleague, the gentleman from North Dakota [Mr. ROBERTSON], may have permission to revise and extend his remarks and include an editorial from a local paper.

The SPEAKER. Is there objection?

There was no objection.

Mr. MUNDT. Mr. Speaker, I ask unanimous consent to extend my remarks

by including a condensation from a chapter of a novel written by Charles Dickens in 1857, which gives a prophetic description of New Deal Washington.

The SPEAKER. Is there objection?

There was no objection.

Mr. WORLEY. Mr. Speaker, I ask unanimous consent to extend my remarks in the Record and include therein an article.

The SPEAKER. Without objection it is so ordered.

There was no objection.

JAMES C. PETRILLO AND WALTER P. REUTHER

Mr. COX. Mr. Speaker, I ask unanimous consent to proceed for 1 minute and to extend my remarks and include therein two brief newspaper clippings.

The SPEAKER. Is there objection?

There was no objection.

Mr. COX. Mr. Speaker, on the 3d of the present month the Times-Herald carried an account to the effect that Mr. Petrillo bars bond-sale music. This brief statement sets forth a situation which is intolerable. In other words, it indicates that Mr. Petrillo has sufficient power to block the Treasury Department in an endeavor to sell bonds.

The other statement calls attention to the fact that Mr. Nelson has offered to Mr. Walter P. Reuther a very responsible position in the W. P. B.

I call the attention of the House to the fact that Mr. Reuther is the gentleman who led the sit-down strikes and who has otherwise been a dreadful disturbance in public affairs for a great many years.

The articles referred to are as follows:

[From the Washington Times-Herald of October 3, 1942]

PETRILLO BARS BOND SALE MUSIC—TREASURY DENIED USE OF QUARTET

NEW YORK, October 2.—Stopping War bond rally radio concert music is the latest feat of James C. Petrillo and the American Federation of Labor Musicians' Federation he heads.

The Treasury Department, it was revealed today, was forced to abandon the presentation of a specially prepared musical program over a network of frequency modulation stations because of objections by Local 802 of the American Federation of Musicians.

The Treasury had accepted the offer of the Perole String Quartet to play free for a series of concerts designed to take advantage of the greater fidelity of transmission inherent in the frequency modulations system. That Government agency's plea for "clearance" of the program was denied by the union, however, on grounds that the frequency modulation stations, still in experimentation and virtually without commercial programs to support them, did not use any musicians on a regular basis.

William Feinberg, secretary of the local, said the union had informed the Treasury that the quartet could volunteer its services to any station it chose providing the station ordinarily employed some musicians. He said that the frequency modulation broadcasters did not maintain staff orchestras common to the standard stations.

Treasury officials decided that rather than make an issue of the case the simpler thing to do was to make other arrangements, although it meant the sacrifice of the Government's first major effort to stimulate the sale of War bonds and stamps via the medium of frequency modulation.

[From the Washington Post of October 2, 1942]

TWO OFFERED HIGH POSTS WITH WAR PRODUCTION BOARD—W. P. REUTHER, UNITED AUTOMOBILE WORKERS OFFICIAL; W. G. MARSHALL, WESTINGHOUSE EXECUTIVE, PROFFERED JOBS

The War Production Board yesterday made offers of top labor jobs to two men as part of its program to set up machinery for greater labor participation in War Production Board, it was learned authoritatively.

One offer went to Walter P. Reuther, vice president of the Congress of Industrial Organizations, United Automobile Workers, who was asked to become head of a labor requirements division by War Production Board Vice Chairman Ferdinand Eberstadt, in charge of program determination. The other one went to William G. Marshall, vice president of Westinghouse Electric Manufacturing Co., who was asked to act as chairman of the proposed five-man labor-management committee which will set policy for the war production drive.

## NO ANSWER AS YET

Neither has indicated whether he will accept the posts, it is understood.

Earlier, War Production Board Chairman Donald M. Nelson told a press conference that the Nation's output of munitions was "spotty again" in September. Figures on September achievements are not expected to be ready until late this month.

At the same time, Nelson announced that production will be more completely scheduled during the first quarter of next year with a view to putting 75 percent of the production program on an "allocation and schedule basis" during the second quarter of 1943, as forecast exclusively in the Washington Post.

## REPEATS PLEDGES

Nelson also repeated previous pledges to appoint labor officials to key War Production Board posts.

As for the iron and steel branch, it is understood that Harold Rutenberg, research director of the Congress of Industrial Organizations steel workers, is being considered as a possible candidate.

If Marshall accepts the production-drive job he will head a committee including John Green, president of the Congress of Industrial Organizations Industrial Union of Marine and Shipbuilding Workers; Frank Fenton, organizational director of the American Federation of Labor; and Otto Seyferth, head of the Muskegon Machine Co., Muskegon, Mich., it was learned.

## REUTHER'S ROLE EXPLAINED

Eberstadt explained the role he wants Reuther to play at a meeting of War Production Board's labor policy committee, it was learned. He told the group, composed of three American Federation of Labor and three Congress of Industrial Organizations representatives, that he wanted a labor official on his staff to give him the benefit of labor's viewpoint in making major policy decisions, it was reported. The members of the policy committee were understood to have been well satisfied with Eberstadt's proposal.

## PERMISSION TO ADDRESS THE HOUSE

[Mr. RANKIN of Mississippi addressed the House. His remarks appear in the Appendix.]

## ADJOURNMENT

Mr. COX. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 12 o'clock and 12 minutes p. m.) the House adjourned until tomorrow, Thursday, October 8, 1942, at 12 o'clock noon.

# COMMITTEE HEARINGS COMMITTEE ON THE JUDICIARY

The Special Subcommittee on Bankruptcy and Reorganization of the Committee on the Judiciary will conduct hearings on H. R. 7356, to amend section 75 (a) of the act entitled "An act to establish a uniform system of bankruptcy throughout the United States," approved July 1, 1898, as amended, at 10 a. m., on Friday, October 9, 1942, room 346, House Office Building.

## COMMITTEE ON PATENTS (Tuesday, October 13, 1942)

The Committee on Patents of the House of Representatives will hold hearings beginning Tuesday, October 13, 1942, at 10 a. m., in the committee room, 1015 House Office Building, on H. R. 7620, a bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes.

## EXECUTIVE COMMUNICATIONS, ETC.

1958. Under clause 2 of rule XXIV, a letter from the Attorney General of the United States transmitting a draft of a proposed bill to amend the Criminal Code so as to punish anyone injuring a party, witness, or juror on account of his having acted as such, was taken from the Speaker's table and referred to the Committee on the Judiciary.

## REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. MAY: Committee on Military Affairs. S. 2442. An act to authorize the Secretary of War to approve a standard design for a service flag and a service lapel button; without amendment (Rept. No. 2518). Referred to the Committee of the Whole House on the state of the Union.

## PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and a resolution were introduced and severally referred as follows:

By Mr. LEA:

H. R. 7667. A bill to authorize the charging of tolls for the passage or transit of Government traffic over the Golden Gate Bridge; to the Committee on Interstate and Foreign Commerce.

By Mr. LeCOMPTE:

H. R. 7668. A bill to amend the act entitled "An act for the incorporation of the American Legion," as amended, and matters relating thereto; to the Committee on the Judiciary.

By Mr. VOORHIS of California:

H. R. 7669. A bill to provide deferment under the Selective Service Act for men with dependents employed in agriculture; to the Committee on Military Affairs.

By Mr. WELCH:

H. R. 7670. A bill to authorize the charging of tolls for the passage or transit of Government traffic over the Golden Gate Bridge; to the Committee on Interstate and Foreign Commerce.

By Mr. RAMSPECK:

H. Res. 550. Resolution to authorize the Committee on the Civil Service to investigate various activities in the departments and agencies of the Government; to the Committee on Rules.

## PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII,

Mr. McGEHEE introduced a bill (H. R. 7671) for the relief of Capt. Richard Rothwell, United States Marine Corps, which was referred to the Committee on Claims.

## SENATE

THURSDAY, OCTOBER 8, 1942

(Legislative day of Monday, October 5, 1942)

The Senate met at 11 o'clock a. m., on the expiration of the recess.

Rev. Paul V. Yinger, pastor, Cleveland Park Congregational Church, Washington, D. C., offered the following prayer:

*They that wait upon the Lord shall renew their strength; they shall mount up with wings as eagles; they shall run and not be weary; they shall walk and not faint.—Isaiah 40: 29-31.*

Let us pray:

In Thy presence alone, Father of Life, we see the light of truth. Thou art the Creator and the Life Giver. In Thy hands are held the fragments of our little days. We need each morning Thy sustaining strength, and every night Thy renewing spirit.

Until we see ourselves as Thy creatures our years are as grass. Unless Thy love surrounds us, a great dread commands us.

Be to us, then, O God, a bulwark in times of stress, a source of high-encircling courage, a fountain in the heat of the day, and a haven from all false fears.

Keep our minds this day from every partial loyalty. Make us sensitive to every influence of Thy spirit. May the worthy leanings of our hearts find ready expression, by Thy grace.

Hear our words and discern our thoughts, and give us of Thyself. In Christ's name we pray. Amen.

## THE JOURNAL

On request of Mr. BARKLEY, and by unanimous consent, the reading of the Journal of the proceedings of the calendar day Wednesday, October 7, 1942, was dispensed with, and the Journal was approved.

## MESSAGE FROM THE PRESIDENT

A message in writing from the President of the United States submitting several nominations in the Army was communicated to the Senate by Mr. Miller, one of his secretaries.

## USE OF GOVERNMENTAL SILVER—NOTICE OF HEARING

Mr. MALONEY. Mr. President, as chairman of the Subcommittee on Coinage and Philippine Currency of the Banking and Currency Committee of the Senate, I desire to give notice, through the CONGRESSIONAL RECORD, that I am calling a hearing to consider Senate bill S. 2768, to authorize the use for war purposes of silver held or owned by the United States, to be held on Wednesday, October 14, 1942, in the Banking and Currency Committee room.

This notice is given for the convenience of interested parties who may desire to appear and be heard.

## CALL OF THE ROLL

Mr. HILL. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Alken	Gerry	O'Daniel
Austin	Gillette	O'Mahoney
Bailey	Green	Overton
Ball	Guffey	Pepper
Bankhead	Gurney	Radcliffe
Barbour	Hatch	Reed
Barkley	Hayden	Reynolds
Bilbo	Herring	Rosier
Bone	Hill	Schwartz
Brewster	Holman	Shipstead
Brooks	Johnson, Calif.	Smithers
Brown	Johnson, Colo.	Smith
Bulow	Kilgore	Spencer
Bunker	La Follette	Stewart
Burton	Langer	Taft
Butler	Lee	Thomas, Idaho
Byrd	Lodge	Thomas, Okla.
Capper	Lucas	Thomas, Utah
Caraway	McCarran	Truman
Chandler	McFarland	Tunnell
Chavez	McKellar	Tydings
Clark, Idaho	McNary	Vandenberg
Clark, Mo.	Maloney	Van Nuys
Connally	Maybank	Wagner
Danaher	Mead	Wallgren
Davis	Millikin	Walsh
Downey	Murdock	Wheeler
Doxey	Murray	White
Ellender	Norris	Wiley
George	Nye	Willis

Mr. HILL. I announce that the Senator from Virginia [Mr. GLASS] and the Senator from Delaware [Mr. HUGHES] are absent from the Senate because of illness.

The Senator from Florida [Mr. ANDREWS], the Senator from New York [Mr. MEAD], and the Senator from Georgia [Mr. RUSSELL] are necessarily absent.

Mr. McNARY. I announce that the Senators from New Hampshire [Mr. BRIDGES and Mr. TOBEY] are necessarily absent.

The VICE PRESIDENT. Ninety Senators have answered to their names. A quorum is present.

## APPRAISAL OF ASSETS AND LIABILITIES OF THE COMMODITY CREDIT CORPORATION

The VICE PRESIDENT laid before the Senate a communication from the President of the United States, which, with the accompanying report, was referred to the Committee on Banking and Currency, and the communication was ordered to be printed in the RECORD, as follows:

THE WHITE HOUSE,  
Washington, October 8, 1942.

MY DEAR MR. PRESIDENT: I have the honor to transmit herewith for the information of the Congress a letter dated September 4, 1942, from the Secretary of the Treasury transmitting, pursuant to the provisions of the act approved March 8, 1938 (52 Stat. 107), as amended, an act to maintain unimpaired the capital of the Commodity Credit Corporation at \$100,000,000 and for other purposes, an appraisal of all the assets and liabilities of the said Corporation as of March 31, 1942. On the basis of such appraisal the Commodity Credit Corporation has deposited in the Treasury the sum of \$27,815,513.68.